

TOWN OF PAXTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2013

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TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS	2
 INDEPENDENT AUDITOR'S REPORT ON:	
Basic Financial Statements	3-4
 MANAGEMENT'S DISCUSSION AND ANALYSIS	5-15
 BASIC FINANCIAL STATEMENTS	16
Statement of Net Position	17
Statement of Activities	18
Governmental Funds Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues and Expenditures – Budgetary Basis – Budget and Actual – General Fund	23
Statement of Net Position – Proprietary Funds	24
Statement of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26
Statement of Fiduciary Net Position – Fiduciary Funds	27
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	28
Notes to Basic Financial Statements	29-65
 REQUIRED SUPPLEMENTARY INFORMATION	66
Schedule of Funding Progress and Employer Contributions	67-68
 SUPPLEMENTARY SCHEDULES	69
Schedule of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	70-71
Schedule of Real Estate and Personal Property Taxes	72
Schedule of Motor Vehicle Excise Taxes	73
Schedule of Tax Liens and Tax Possessions	74
 INDEPENDENT AUDITOR'S REPORT ON:	
Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	75-76

Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Paxton
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 as of and for the year ended June 30, 2013, (except for the Paxton Electric Light Department, which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the Town of Paxton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 did not audit the financial statements of the Paxton Electric Light Department, which represents 73 percent, 65 percent and 81 percent, respectively, of the assets, net position, and revenues of the proprietary fund types. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Paxton Electric Light Department, is based solely on the report of the other auditors. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental

activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paxton, Massachusetts, as of June 30, 2013 (except for the Paxton Electric Light Department, which is as of and for the year ended December 31, 2012), and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 to 15 and the *Schedule of Funding Progress and Employer Contributions* on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Paxton's financial statements as a whole. The Supplementary Schedules as listed in the table of contents and appearing on pages 70 to 74 are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated January 15, 2014 on our consideration of the Town of Paxton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the Town of Paxton's internal control over financial reporting and compliance.



Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Paxton (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the Financial Statements and the Notes to the Financial Statements to enhance their understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS

- The Town's assets exceeded its liabilities at June 30, 2013 by \$19,924,076 (Net Position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$19,597,613, or an increase of \$326,463.
- Total Net Position is comprised of the following:
 - (1) Net investment in capital assets of \$14,584,783 includes property and equipment, net of accumulated depreciation, reduced by outstanding debt related to the purchase or construction of capital assets.
 - (2) Net Position of \$1,446,265 is restricted by constraints imposed from outside the Town such as grantors, laws or regulations.
 - (3) Unrestricted Net Position of \$3,893,028 represents the portion available to maintain the Town's continuing obligations to citizens and creditors.
- The Town's governmental funds reported total ending fund balances of \$2,800,767 this year. This compares to the prior year ending fund balances of \$2,561,674 resulting in an increase of \$239,093 during the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Paxton's basic financial statements. These basic financial statements are comprised of 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 finances, in a manner similar to private-sector business.

The *Statement of Net Position* presents information on all assets and liabilities, 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 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 leave).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Both of the *Government-Wide Financial Statements* distinguish functions that are principally supported by taxes and intergovernmental revenues (*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 include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The Business-Type Activities include the water and electric light activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows 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 financial 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 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 decision. Both the governmental fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Paxton adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The Town maintains the following type of proprietary fund:

Enterprise Funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its 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 statements 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 Basic 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.

THE TOWN AS A WHOLE

The Town is providing condensed financial information for Fiscal Years 2013 and 2012. Our analysis following focuses on the Net Position of the Town's governmental and business-type activities. The following table reflects the condensed Statement of Net Position.

Table 1
NET POSITION

	Governmental Activities		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
ASSETS			
Current assets	\$ 3,316,683	\$ 3,427,013	\$ (110,330)
Other non-current and restricted assets	1,951,331	2,477,527	(526,196)
Capital assets, net	<u>18,558,466</u>	<u>18,845,142</u>	<u>(286,676)</u>
Total Assets	<u>23,826,480</u>	<u>24,749,682</u>	<u>(923,202)</u>
LIABILITIES			
Current liabilities (excluding debt and leases)	388,996	884,430	(495,434)
Non-current liabilities (excluding debt and leases)	515,325	183,396	331,929
Current debt and leases	890,392	932,122	(41,730)
Non-current debt and leases	<u>8,929,627</u>	<u>9,820,019</u>	<u>(890,392)</u>
Total Liabilities	<u>10,724,340</u>	<u>11,819,967</u>	<u>(1,095,627)</u>
NET POSITION			
Net investment in capital assets	10,557,275	10,179,930	377,345
Restricted	1,446,265	1,287,694	158,571
Unrestricted	<u>1,098,600</u>	<u>1,462,091</u>	<u>(363,491)</u>
Total Net Position	<u>\$ 13,102,140</u>	<u>\$ 12,929,715</u>	<u>\$ 172,425</u>
	Business-Type Activities		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
ASSETS			
Current assets	\$ 2,828,233	\$ 2,275,825	\$ 552,408
Other non-current and restricted assets	2,294,781	3,201,575	(906,794)
Capital assets, net	<u>4,177,508</u>	<u>3,470,090</u>	<u>707,418</u>
Total Assets	<u>9,300,522</u>	<u>8,947,490</u>	<u>353,032</u>
LIABILITIES			
Current liabilities (excluding debt)	478,500	317,054	161,446
Non-current liabilities (excluding debt)	1,850,086	1,787,538	62,548
Current debt	25,000	25,000	-
Non-current debt	<u>125,000</u>	<u>150,000</u>	<u>(25,000)</u>
Total Liabilities	<u>2,478,586</u>	<u>2,279,592</u>	<u>198,994</u>
NET POSITION			
Net investment in capital assets	4,027,508	3,295,091	732,417
Unrestricted	<u>2,794,428</u>	<u>3,372,807</u>	<u>(578,379)</u>
Total Net Position	<u>\$ 6,821,936</u>	<u>\$ 6,667,898</u>	<u>\$ 154,038</u>

THE TOWN AS A WHOLE (Continued)

Our next analysis focuses on changes in Net Position of the Town's governmental and business-type activities. The following table shows the condensed revenue and expenses of the total government.

**Table 2
CHANGES IN NET POSITION**

	Governmental Activities		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
REVENUES			
Program Revenues			
Charges for services	\$ 1,122,701	\$ 1,096,678	\$ 26,023
Operating grants and contributions	451,712	205,656	246,056
Capital grants and contributions	432,406	970,375	(537,969)
General Revenues			
Property taxes	8,626,223	8,457,823	168,400
Motor vehicle and other taxes	581,899	547,440	34,459
Penalties and interest on taxes	128,056	29,203	98,853
Intergovernmental not restricted	573,099	563,070	10,029
Investment income	10,548	13,578	(3,030)
Total Revenues	<u>11,926,644</u>	<u>11,883,823</u>	<u>42,821</u>
 EXPENSES			
General government	799,417	981,267	(181,850)
Public safety	2,956,921	2,514,864	442,057
Education	5,855,433	5,621,620	233,813
Public works	1,216,577	1,027,989	188,588
Health and human services	180,335	102,510	77,825
Culture and recreation	329,555	371,665	(42,110)
Interest on debt	415,981	426,739	(10,758)
Total Expenses	<u>11,754,219</u>	<u>11,046,654</u>	<u>707,565</u>
 CHANGE IN NET POSITION	172,425	837,169	(664,744)
Net Position, Beginning of Year	<u>12,929,715</u>	<u>12,092,546</u>	<u>837,169</u>
 NET POSITION, END OF YEAR	<u>\$ 13,102,140</u>	<u>\$ 12,929,715</u>	<u>\$ 172,425</u>

THE TOWN AS A WHOLE (Continued)

Table 2
CHANGES IN NET POSITION

	<u>Business-Type Activities</u>		
	<u>2013</u>	<u>2012</u>	<u>Change</u>
REVENUES			
Program Revenues			
Charges for services	\$ 4,183,557	\$ 4,266,915	\$ (83,358)
Operating grants and contributions	—	—	—
Capital grants and contributions	600	78,491	(77,891)
General Revenues			
Investment income	<u>55,929</u>	<u>16,821</u>	<u>39,108</u>
Total Revenues	<u>4,240,086</u>	<u>4,362,227</u>	<u>(122,141)</u>
EXPENSES			
Water	731,328	784,811	(53,483)
Electric light	<u>3,354,720</u>	<u>3,567,328</u>	<u>(212,608)</u>
Total Expenses	<u>4,086,048</u>	<u>4,352,139</u>	<u>(266,091)</u>
CHANGE IN NET POSITION	<u>154,038</u>	<u>10,088</u>	<u>143,950</u>
Net Position, Beginning of Year	<u>6,667,898</u>	<u>6,657,810</u>	<u>10,088</u>
NET POSITION, END OF YEAR	<u>\$ 6,821,936</u>	<u>\$ 6,667,898</u>	<u>\$ 154,038</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$19,924,076 at June 30, 2013.

Net Position of \$14,584,783 (73%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 portion of the net position \$1,446,265 (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *Unrestricted Net Position* \$3,893,028 (20%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of Net Position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

The Net Position of the Governmental Activities increased by \$172,425, or 1.33%, during fiscal 2013. The increase is due to governmental revenues exceeding expenditures by \$239,093 and the change in the method of accounting from governmental fund statements to the government-wide statements as explained in the Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

Business-Type Activities

The Net Position of Business-Type Activities increased by \$154,038, or 2.31%, during 2013.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$2,800,767 an increase of \$239,093 in comparison with the prior year from revenues exceeding expenditures.

At the end of the fiscal year, governmental funds reported combined ending fund balances of \$2,800,767. Of this year-end total, \$894,471 is unassigned fund balance, indicating availability for funding continuing Town service requirements. The Town adopted the requirements of *Government Accounting Standards Board Statement Number 54 (GASB #54)*. This Statement stipulated that stabilization arrangements be reported in the General Fund. At June 30, 2013 the fund balances were comprised of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Non-Spendable:			
Permanent Funds	<u>\$ —</u>	<u>\$ 317,912</u>	<u>\$ 317,912</u>
Restricted:			
Federal and State grants		25,989	25,989
Revolving		159,310	159,310
Gifts and other		558,650	558,650
Capital project		60,462	60,462
Permanent expendable funds		219,067	219,067
Debt service	<u>2,623</u>		<u>2,623</u>
Total Restricted	<u>2,623</u>	<u>1,023,478</u>	<u>1,026,101</u>
Committed:			
Capital stabilization	136,017		136,017
Next year's budget	<u>389,222</u>	<u>27,195</u>	<u>416,417</u>
	<u>525,239</u>	<u>27,195</u>	<u>552,434</u>
Assigned:			
Encumbrances & continuing appropriations	<u>9,849</u>		<u>9,849</u>
Total Assigned	<u>9,849</u>	<u>—</u>	<u>9,849</u>
Unassigned:			
General stabilization	140,738		140,738
Capital stabilization	66,507		66,507
General fund	<u>687,226</u>		<u>687,226</u>
Total Unassigned	<u>894,471</u>	<u>—</u>	<u>894,471</u>
Total Governmental Fund Balance	<u>\$ 1,432,182</u>	<u>\$ 1,368,585</u>	<u>\$ 2,800,767</u>

Non-spendable fund balances include trust fund amounts where the principal balance is permanently restricted.

MAJOR GOVERNMENTAL FUNDS

General Fund

The *General Fund* is the Town's primary operating fund and the largest source of day-to-day operations. At the end of the current fiscal year, unassigned fund balance of the general fund, including stabilization funds, was \$894,471, while total fund balance reached \$1,432,182. 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 and revenues and transfers. Unassigned fund balance represents 8.22% of fund expenditures and total fund balance represents 13.17% of that same amount. Unassigned fund balance represents 8.10% of total general fund revenues including transfers and total fund balance represents 12.98% of that same amount.

The fund balance of the general fund increased by \$158,871. Of this amount \$130,601 was attributed to the revenues exceeding expenditures and \$28,270 of net transfers from other funds.

Revenue Trends

	<u>Amount</u>	<u>Percentage of Total</u>	<u>2012-2013 Increase/ (Decrease)</u>	<u>Percentage Change</u>
Revenues and Transfers				
Property taxes, net	\$ 8,766,773	79.4%	\$ 407,557	4.9%
Motor vehicle and other taxes	573,565	5.2%	26,125	4.8%
Penalties and interest on taxes	128,056	1.2%	98,853	338.5%
Intergovernmental aid	1,057,952	9.6%	(223,603)	-17.4%
Investment income	10,548	0.1%	(1,199)	-10.2%
Departmental and other revenues	471,996	4.3%	34,240	7.8%
Total Revenues	<u>11,008,890</u>	<u>99.7%</u>	<u>341,973</u>	<u>3.2%</u>
Transfers from other funds	<u>28,270</u>	<u>0.3%</u>	<u>(11,730)</u>	<u>-29.3%</u>
Total Revenues and Transfers From Other Funds	<u>\$ 11,037,160</u>	<u>100.0%</u>	<u>\$ 330,243</u>	<u>3.1%</u>

The Fiscal Year 2013 general fund revenues, transfers from other funds totaled \$11,037,160, an increase of \$330,243 from the previous year.

The property tax increase of \$407,557 is due to the 2.5% annual increase allowed by Proposition 2 ½, annual new growth as calculated by the Board of Assessors, and the collection of \$228,373 of tax liens in Fiscal Year 2013.

Penalties and interest on taxes increased by \$98,853 as a result of tax liens collected in Fiscal 2013.

Intergovernmental Aid decreased by \$223,603 primarily as a result of \$210,477 in storm damage reimbursements received in Fiscal Year 2012.

Expenditure Trends

	<u>Amount</u>	<u>Percentage of Total</u>	<u>2012-2013 Increase/ (Decrease)</u>	<u>Percentage Change</u>
Expenditures				
General government	\$ 606,412	5.6%	\$ (154,988)	-20.4%
Public safety	1,350,867	12.4%	(40,573)	-2.9%
Education	5,471,293	50.3%	164,447	3.1%
Public works	950,771	8.7%	78,903	9.0%
Health and human services	71,582	0.7%	(21,068)	-22.7%
Culture and recreation	188,198	1.7%	(19,144)	-9.2%
Employee benefits	754,308	6.9%	37,650	5.3%
Insurance	103,251	0.9%	6,905	7.2%
State assessments	53,314	0.5%	(4,985)	-8.6%
Debt service	1,328,293	12.2%	58,423	4.6%
Total Expenditures	<u>\$ 10,878,289</u>	<u>100.0%</u>	<u>\$ 105,570</u>	<u>1.0%</u>

MAJOR GOVERNMENTAL FUNDS (Continued)

The Fiscal Year 2013 general fund expenditures totaled \$10,878,289, an increase of \$105,570 from the previous fiscal year.

The largest increase in expenditures, in education, was due to assessment increases to the regional school districts.

STABILIZATION FUNDS

The *General Stabilization Fund* has an accumulated fund balance of \$140,738. The fund balance of the *General Stabilization Fund* increased by \$1,522 as a result of investment income earned in Fiscal 2013.

The *Capital Stabilization Fund* has accumulated a fund balance of \$202,524. The fund balance of the *Capital Stabilization Fund* decreased by \$51,933. Of this amount, \$2,495 was attributed to net investment income and \$54,428 was transferred to the general fund.

Proprietary Funds

The *Proprietary Funds* statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The *Water Fund* is used to finance the operations of the Town's water system. The fund shows an increase of \$68,294, attributable to operational revenue exceeding operating costs by \$76,127, investment income of \$190 and interest expense of \$8,023.

The *Electric Light Fund* is used to account for activities of the government's electric distribution operations. The fund at December 31, 2012 shows an increase of \$85,744 attributed to operating revenues exceeding expenditures by \$35,022, investment income of \$55,739, interest expense of \$78, and other expense and operating transfers of \$4,939.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Original Budget 2013	Special Town Meeting Articles 2013	Transfers 2013	Final Budget 2013	Final Budget 2012
General government	\$ 684,959	\$ (22,407)	\$ (36,908)	\$ 625,644	\$ 835,990
Public safety	1,390,325	(73,037)	35,981	1,353,269	1,421,297
Education	5,511,350	(40,057)		5,471,293	5,289,496
Public works	981,090	(24,734)		956,356	950,963
Health and human services	79,983	(3,944)	635	76,674	95,489
Culture and recreation	201,694	(11,141)		190,553	212,696
Employee benefits	689,233		(13)	689,220	602,153
Insurance	112,946	(10,000)	305	103,251	104,827
State and County charges	52,494			52,494	59,199
Debt service	1,308,607	13,560		1,322,167	1,287,671
Total	\$ 11,012,681	\$ (171,760)	\$ —	\$ 10,840,921	\$ 10,859,781

The final General Fund expenditure budget for Fiscal Year 2013 was \$10,840,921, without considering budgeted amounts carried forward from the previous fiscal year in the form of encumbrances. This was a decrease of \$18,860 or .17 percent from the previous year's budget.

CAPITAL ASSETS

The Town's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2013, (December 31, 2012 for the Electric Light Fund) amounts to \$18,558,466 and \$4,177,508 respectively.

The investment in capital assets includes land, construction in progress, buildings and improvements, machinery, equipment and furnishings and infrastructure.

Major capital asset events during the current fiscal year in the Governmental Activities included the following:

Depreciation expense of \$841,979.

Additions of the following:

• Road improvements	\$ 193,075
• School building renovations	155,072
• Public works vehicle	74,428
• Fire/ambulance equipment	74,043
• Fire truck	35,000
• John Deere tractor	13,685
• Bandstand	10,000

Major capital asset events during the current fiscal year in the business-type funds included the following:

Depreciation expense of \$339,320.

Additions of the following:

In the Electric Light Fund:

• Construction in Progress	\$ 913,546
• Distribution Plant	80,455
• General Plant	52,737

DEBT ADMINISTRATION

Debt is considered a liability of the governmental and business-type activities. The debt summary for Fiscal Year 2013 is presented below:

	Governmental Activities <u>2013</u>	Business-Type Activities <u>2013</u>	<u>Total</u> <u>2013</u>
Long-Term Debt Payable			
Outstanding Bonds and Notes Payable at June 30, 2012	\$10,452,894	\$ 175,000	\$10,627,894
Less: Debt Retired	<u>(891,464)</u>	<u>(25,000)</u>	<u>(916,464)</u>
Outstanding Bonds and Notes Payable at June 30, 2013	<u>\$ 9,561,430</u>	<u>\$ 150,000</u>	<u>\$ 9,711,430</u>

At June 30, 2013, the Town had bonded debt outstanding of \$9,711,430, which included \$9,561,430 for governmental activities and \$150,000 for business-type activities. All debt is a general obligation of the Town, although Water and Electric Light debt service payments are made from resources of the enterprise funds.

DEBT ADMINISTRATION (Continued)

The bonded debt outstanding includes the following:

Governmental Activities:

Public Safety Complex	\$ 6,453,200
School Construction	1,980,000
School Renovations	609,000
Fire Equipment	186,000
Dump Truck	150,000
Window Replacement	80,700
Title V Septic Loans	61,430
Public Works Building Renovations	31,100
Town Hall Design	10,000
Total General Debt	<u>9,561,430</u>

Business-Type Debt:

Water Pump Station	<u>150,000</u>
Total Business Debt	<u>150,000</u>

Grand Total	<u><u>\$ 9,711,430</u></u>
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ECONOMIC FACTORS

The 2013 average single family tax bill for the Town was \$5,140 based upon an average single family home value of \$267,417. The State's average single family tax bill was \$4,846 for the same period.

The total property tax levy for Fiscal Year 2014 is \$8,829,595, an increase of 2.1% or \$177,611 more than the 2013 tax levy.

The Town's General Fund operating budget voted on May 13, 2013 for Fiscal Year 2014 totaled \$11,245,597. The Town used \$389,222 of free cash to reduce the 2014 tax rate and \$136,017 from the Capital Stabilization Fund for various capital expenditures.

The Town's bonds are rated Aa3 by Moody's Investor Services.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

TOWN OF PAXTON, MASSACHUSETTS
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,849,287	\$ 1,130,327	\$ 2,979,614
Investments	732,921	506,477	1,239,398
Receivables, net of allowance for uncollectibles:			
Taxes receivable	300,225		300,225
User fees and other	72,535	536,278	608,813
Intergovernmental	353,904		353,904
Special Assessments	7,811		7,811
Materials and supplies		141,637	141,637
Prepaid expenses		74,007	74,007
Purchase power working capital		439,507	439,507
Total Current Assets	<u>3,316,683</u>	<u>2,828,233</u>	<u>6,144,916</u>
Non-Current Assets:			
Cash and cash equivalents		1,761,532	1,761,532
Investments		509,749	509,749
Other		23,500	23,500
Receivables, net of allowance for uncollectibles:			
Intergovernmental	1,540,812		1,540,812
Special assessments	92,607		92,607
Deferred power contract			
Restricted assets:			
Investments	317,912		317,912
Capital assets, net of accumulated depreciation:			
Non-Depreciable	2,673,115	1,570,542	4,243,657
Depreciable	15,885,351	2,606,966	18,492,317
Total Non-Current Assets	<u>20,509,797</u>	<u>6,472,289</u>	<u>26,982,086</u>
Total Assets	<u>23,826,480</u>	<u>9,300,522</u>	<u>33,127,002</u>
LIABILITIES			
Current Liabilities:			
Warrants and accounts payable	163,179	385,567	548,746
Accrued expenses	52,868	14,333	67,201
Accrued interest payable	108,433	284	108,717
Other liabilities	3,738	77,576	81,314
Current portion of long-term liabilities:			
Compensated absences	60,778	740	61,518
Lease obligation payable	42,695		42,695
Bonds and notes payable	847,697	25,000	872,697
Total Current Liabilities	<u>1,279,388</u>	<u>503,500</u>	<u>1,782,888</u>
Non-Current Liabilities:			
Customer deposits		39,850	39,850
Compensated absences	24,379		24,379
Other post-employment benefits payable	490,946	55,961	546,907
Rate stabilization reserve		1,754,275	1,754,275
Lease obligation payable	215,894		215,894
Bonds and notes payable	8,713,733	125,000	8,838,733
Total Non-Current Liabilities	<u>9,444,952</u>	<u>1,975,086</u>	<u>11,420,038</u>
Total Liabilities	<u>10,724,340</u>	<u>2,478,586</u>	<u>13,202,926</u>
NET POSITION			
Net investment in capital assets	10,557,275	4,027,508	14,584,783
Restricted for:			
Grants and other statutory restrictions	909,286		909,286
Permanent Funds:			
Expendable	219,067		219,067
Non-spendable	317,912		317,912
Unrestricted	1,098,600	2,794,428	3,893,028
Total Net Position	<u>\$ 13,102,140</u>	<u>\$ 6,821,936</u>	<u>\$ 19,924,076</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Activities
Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Governmental Activities:						<u>Total</u>
General government	\$ 799,417	\$ 67,537	\$ 17,107	\$	\$ (714,773)	\$ (714,773)
Public safety	2,956,921	643,745	213,355		(2,099,821)	(2,099,821)
Education	5,855,433		146,633	162,344	(5,546,456)	(5,546,456)
Public works	1,216,577	301,663	25,506	196,528	(692,880)	(692,880)
Health and human services	180,335	53,429	14,033		(112,873)	(112,873)
Culture and recreation	329,555	56,327	35,078		(238,150)	(238,150)
Interest on debt	415,981			73,534	(342,447)	(342,447)
Total Governmental Activities	<u>11,754,219</u>	<u>1,122,701</u>	<u>451,712</u>	<u>432,406</u>	<u>(9,747,400)</u>	<u>(9,747,400)</u>
Business Type Activities:						
Water	731,328	799,432				68,104
Municipal Light Plant	3,354,720	3,384,125		600		30,005
Total Business-Type Activities	<u>4,086,048</u>	<u>4,183,557</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>98,109</u>
TOTAL GOVERNMENT	<u>\$ 15,840,267</u>	<u>\$ 5,306,258</u>	<u>\$ 451,712</u>	<u>\$ 433,006</u>	<u>\$ (9,747,400)</u>	<u>(9,649,291)</u>
General Revenues:						
Property taxes levied for general purposes					\$ 8,626,223	\$ 8,626,223
Motor vehicle and other excise taxes					581,899	581,899
Penalties and interest on taxes					128,056	128,056
State Aid not restricted to specific programs					573,099	573,099
Unrestricted investment earnings					10,548	66,477
Total General Revenues and Transfers					<u>9,919,825</u>	<u>9,975,754</u>
Change in Net Position					172,425	326,463
Net Position, Beginning of Year, As Restated					12,929,715	19,597,613
Net Position, End of Year					<u>\$ 13,102,140</u>	<u>\$ 19,924,076</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

Governmental Funds Balance Sheet

June 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,247,495	\$ 601,792	\$ 1,849,287
Investments	343,262	389,659	732,921
Receivables – net of allowance for uncollectibles:			
Taxes receivable	300,225		300,225
Departmental and other	24,912	47,623	72,535
Intergovernmental	1,853,274	41,442	1,894,716
Special assessments		100,418	100,418
Restricted investments	<u> </u>	<u>317,912</u>	<u>317,912</u>
Total Assets	<u>\$ 3,769,168</u>	<u>\$ 1,498,846</u>	<u>\$ 5,268,014</u>
LIABILITIES			
Warrants and accounts payable	\$ 137,965	\$ 25,214	\$ 163,179
Accrued payroll	50,073	2,795	52,868
Other liabilities	3,738		3,738
Deferred revenue:			
Property taxes	294,291		294,291
Other	<u>1,850,919</u>	<u>102,252</u>	<u>1,953,171</u>
Total Liabilities	<u>2,336,986</u>	<u>130,261</u>	<u>2,467,247</u>
FUND BALANCES			
Non-spendable		317,912	317,912
Restricted	2,623	1,023,478	1,026,101
Committed	525,239	27,195	552,434
Assigned	9,849		9,849
Unassigned	<u>894,471</u>		<u>894,471</u>
Total Fund Balances	<u>1,432,182</u>	<u>1,368,585</u>	<u>2,800,767</u>
Total Liabilities and Fund Balances	<u>\$ 3,769,168</u>	<u>\$ 1,498,846</u>	<u>\$ 5,268,014</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, 2013

Total Fund Balance – Total Governmental Funds		\$ 2,800,767
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets (net) used in governmental activities are not financial resources and therefore are not reported in the funds.		18,558,466
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		2,247,462
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds:		
Compensated absences	\$ (85,157)	
Other post-employment benefits payable	(490,946)	
Lease obligations payable	(258,589)	
Bonds payable	<u>(9,561,430)</u>	(10,396,122)
In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, interest is not reported until due.		<u>(108,433)</u>
Net Position of Governmental Activities		<u>\$ 13,102,140</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

June 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes, net	\$ 8,766,773	\$	\$ 8,766,773
Motor vehicle and other taxes	573,565		573,565
Penalties and interest on taxes	128,056		128,056
Intergovernmental aid	941,930	487,446	1,429,376
Intergovernmental on-behalf payments	116,022		116,022
Investment income	10,548	19,502	30,050
Charges for services:			
Trash collection	271,647		271,647
Revolving and other		687,831	687,831
Licenses, permits, fines and fees	200,349		200,349
Other revenues		<u>127,968</u>	<u>127,968</u>
Total Revenues	<u>11,008,890</u>	<u>1,322,747</u>	<u>12,331,637</u>
EXPENDITURES			
Current:			
General government	606,412	18,129	624,541
Public safety	1,350,867	710,979	2,061,846
Education	5,471,293	155,072	5,626,365
Public works	950,771	200,393	1,151,164
Health and human services	71,582	48,638	120,220
Culture and recreation	188,198	81,044	269,242
Employee benefits	754,308		754,308
Insurance	103,251		103,251
State assessments	53,314		53,314
Debt service:			
Principal	891,464		891,464
Interest	<u>436,829</u>		<u>436,829</u>
Total Expenditures	<u>10,878,289</u>	<u>1,214,255</u>	<u>12,092,544</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>130,601</u>	<u>108,492</u>	<u>239,093</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	28,270		28,270
Operating transfers out	<u>-</u>	<u>(28,270)</u>	<u>(28,270)</u>
Total Other Financing Sources (Uses)	<u>28,270</u>	<u>(28,270)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	158,871	80,222	239,093
Fund Balances, Beginning of Year	<u>1,273,311</u>	<u>1,288,363</u>	<u>2,561,674</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,432,182</u>	<u>\$ 1,368,585</u>	<u>\$ 2,800,767</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

Year Ended June 30, 2013

Net Change in Fund Balances – Total Governmental Funds	\$ 239,093
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense:

Capital Outlay Purchases	\$ 555,303	
Depreciation	<u>(841,979)</u>	(286,676)

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(404,993)
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The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position:

Repayment of Debt Principal	891,464	
Capital Lease Obligation	<u>40,658</u>	932,122

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 governmental funds:

Net Change in Compensated Absences	(20,419)	
Net Change in OPEB Liability	(307,550)	
Net Change in Accrued Interest on Long-Term Debt	<u>20,848</u>	<u>(307,121)</u>

Change in Net Position of Governmental Activities	<u>\$ 172,425</u>
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See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Revenues and Expenditures – Budgetary Basis – Budget and Actual – General Fund
Year Ended June 30, 2013

	Amounts Carried Forward From Prior Year	Budgeted Amounts		Actual Budgetary Basis	Amounts Carried Forward To Next Year	Variance with Final Budget Positive (Negative)
REVENUES						
Property taxes, net	\$	\$ 8,760,934	\$ 8,589,174	\$ 8,796,172	\$	\$ 206,998
Motor vehicle and other excise taxes		548,564	548,564	573,565		25,001
Penalties and interest on taxes		29,500	29,500	128,056		98,556
Intergovernmental aid		910,531	910,531	938,339		27,808
Investment income		7,300	7,300	6,531		(769)
Charges for services – Trash		277,000	277,000	271,647		(5,353)
Licenses, permits, fines and fees		200,000	200,000	200,349		349
Total Revenues	–	10,733,829	10,562,069	10,914,659	–	352,590
EXPENDITURES						
Current:						
General government	10,153	684,959	635,797	606,412	9,849	19,536
Public safety	10,665	1,390,325	1,363,934	1,350,867		13,067
Education		5,511,350	5,471,293	5,471,293		–
Public works	1,985	981,090	958,341	950,771		7,570
Health and human services	387	79,983	77,061	71,582		5,479
Culture and recreation	253	201,694	190,806	188,198		2,608
Employee benefits		689,233	689,220	638,286		50,934
Insurance		112,946	103,251	103,251		–
State assessments		52,494	52,494	53,314		(820)
Debt service:						
Principal		878,465	891,465	891,464		1
Interest	2,536	430,142	433,238	433,238		–
Total Expenditures	25,979	11,012,681	10,866,900	10,758,676	9,849	98,375
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(25,979)	(278,852)	(304,831)	155,983	(9,849)	450,965
OTHER FINANCING SOURCES (USES)						
Operating transfers in		28,270	28,270	28,270		–
Transfer from Stabilization		54,428	54,428	54,428		–
Total Other Financing Sources (Uses)	–	82,698	82,698	82,698	–	–
NET CHANGE IN BUDGETARY FUND BALANCE	\$ (25,979)	\$ (196,154)	\$ (222,133)	\$ 238,681	\$ (9,849)	\$ 450,965
Other Budgetary Items:						
Free cash	\$	\$ 196,154	\$ 196,154			
Prior year encumbrances	25,979		25,979			
Total Other Budgetary Items	25,979	196,154	222,133			
NET BUDGET	–	–	–			

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Net Position – Proprietary Funds
June 30, 2013

Business-Type Activities

	Enterprise Funds		
	Water Fund	Electric Light Fund Dec. 31, 2012	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 261,809	\$ 868,518	\$ 1,130,327
Investments		506,477	506,477
Receivables – net of allowance for uncollectibles:			
User fees and other	78,540	457,738	536,278
Materials and supplies		141,637	141,637
Prepaid expenses		74,007	74,007
Purchase power working capital		439,507	439,507
Total Current Assets	<u>340,349</u>	<u>2,487,884</u>	<u>2,828,233</u>
Non-Current			
Cash and cash equivalents		1,761,532	1,761,532
Investments		509,749	509,749
Other		23,500	23,500
Capital assets, net of accumulated depreciation:			
Non-depreciable	641,400	929,142	1,570,542
Depreciable	<u>1,589,382</u>	<u>1,017,584</u>	<u>2,606,966</u>
Total Non-Current Assets	<u>2,230,782</u>	<u>4,241,507</u>	<u>6,472,289</u>
Total Assets	<u>2,571,131</u>	<u>6,729,391</u>	<u>9,300,522</u>
LIABILITIES			
Current:			
Warrants and accounts payable	57,006	328,561	385,567
Accrued expenses and other	1,940	12,393	14,333
Accrued interest	284		284
Deferred credits		77,576	77,576
Current portion of long-term liabilities:			
Compensated absences	740		740
Bonds payable	<u>25,000</u>		<u>25,000</u>
Total Current Liabilities	<u>84,970</u>	<u>418,530</u>	<u>503,500</u>
Non-Current:			
Customer deposits		39,850	39,850
Other post-employment benefits payable		55,961	55,961
Rate stabilization reserve		1,754,275	1,754,275
Bonds payable	<u>125,000</u>		<u>125,000</u>
Total Non-Current Liabilities	<u>125,000</u>	<u>1,850,086</u>	<u>1,975,086</u>
Total Liabilities	<u>209,970</u>	<u>2,268,616</u>	<u>2,478,586</u>
NET POSITION			
Net investment in capital assets	2,080,782	1,946,726	4,027,508
Unrestricted	<u>280,379</u>	<u>2,514,049</u>	<u>2,794,428</u>
Total Net Position	<u>\$ 2,361,161</u>	<u>\$ 4,460,775</u>	<u>\$ 6,821,936</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Funds

Year Ended June 30, 2013

Business-Type Activities

	Enterprise Funds		
	Water Fund	Electric Light Fund	Total
	Dec. 31, 2012		
OPERATING REVENUES			
Charges for services	\$ 799,432	\$ 3,384,125	\$ 4,183,557
Total Operating Revenues	<u>799,432</u>	<u>3,384,125</u>	<u>4,183,557</u>
OPERATING EXPENSES			
Salary and wages	123,035		123,035
Water purchases	400,092		400,092
Operations and maintenance	101,364	3,108,597	3,209,961
Depreciation	98,814	240,506	339,320
Total Operating Expenses	<u>723,305</u>	<u>3,349,103</u>	<u>4,072,408</u>
OPERATING INCOME	<u>76,127</u>	<u>35,022</u>	<u>111,149</u>
NON-OPERATING REVENUES (EXPENSES)			
Office expenses		(5,539)	(5,539)
Investment income	190	55,739	55,929
Interest expense	(8,023)	(78)	(8,101)
Contribution in aid of construction	—	600	600
Total Non-Operating Revenues (Expenses)	<u>(7,833)</u>	<u>50,722</u>	<u>42,889</u>
CHANGE IN NET POSITION	68,294	85,744	154,038
Net Position, Beginning of Year	<u>2,292,867</u>	<u>4,375,031</u>	<u>6,667,898</u>
NET POSITION, END OF YEAR	<u>\$ 2,361,161</u>	<u>\$ 4,460,775</u>	<u>\$ 6,821,936</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2013

	Business-Type Activities		
	Water Fund	Electric Light Fund	Total Funds
	Dec. 31, 2012	Dec. 31, 2012	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 783,235	\$ 3,324,236	\$ 4,107,471
Payments to suppliers	(493,958)	(2,264,172)	(2,758,130)
Payments to employees	(120,355)	(481,645)	(602,000)
Payments for benefits		(214,750)	(214,750)
Net Cash Provided by (Used for) Operating Activities	168,922	363,669	532,591
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Net disaster recovery revenue		8,108	8,108
Interest expense		(78)	(78)
Net Cash Provided by (Used for) Non-Capital Financing Activities	—	8,030	8,030
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets		(1,028,325)	(1,028,325)
Customer advances for construction		600	600
Principal payments on bonds	(25,000)		(25,000)
Interest expense	(8,075)		(8,075)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(33,075)	(1,027,725)	(1,060,800)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income (net)	190	50,888	51,078
Purchases of investments		(100,815)	(100,815)
Proceeds from sale of investments		72,861	72,861
Net Cash Provided by (Used for) Investing Activities	190	22,934	23,124
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	136,037	(633,092)	(497,055)
Cash and Cash Equivalents, Beginning of Year	125,772	3,292,742	3,418,514
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 261,809	\$ 2,659,650	\$ 2,921,459
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
OPERATING INCOME	\$ 76,127	\$ 35,022	\$ 111,149
Adjustments to Reconcile Operating Income to net cash provided by (Used For) Operating Activities:			
Depreciation	98,814	240,506	339,320
(Increase) decrease in assets:			
User charges and other receivables	(16,197)	(120,630)	(136,827)
Materials and supplies		2,585	2,585
Prepaid expenses		5,123	5,123
Increase (decrease) in liabilities:			
Warrants and accounts payable	7,498	72,175	79,673
Accrued expenses	1,940	1,569	3,509
Other post-employment benefits obligation		46,843	46,843
Deferred credits		77,576	77,576
Other liabilities	740	2,900	3,640
Total Adjustments	92,795	328,647	421,442
Net Cash Provided by (Used for) Operating Activities	\$ 168,922	\$ 363,669	\$ 532,591

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

The following accounts are considered to be cash or cash equivalents for the Statement of Cash Flows:

Operating cash	\$ 261,809	\$ 483,025	\$ 744,834
Depreciation fund		882,500	882,500
Customer deposits		39,850	39,850
Rate stabilization fund		1,254,275	1,254,275
Total	\$ 261,809	\$ 2,659,650	\$ 2,921,459

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	<u>OPEB Trust Fund</u> <u>Electric Light</u> <u>12/31/12</u>	<u>Agency</u> <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 165,864	\$ 78,822
Total Assets	<u>165,864</u>	<u>78,822</u>
LIABILITIES		
Escrows and deposits	<u>—</u>	<u>78,822</u>
Total Liabilities	<u>—</u>	<u>78,822</u>
NET POSITION		
Held in trust for Other Post-Employment Benefits and other purposes	<u>\$ 165,864</u>	<u>\$ —</u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

	<u>OPEB Trust Fund</u> <u>Electric Light</u> <u>12/31/12</u>
ADDITIONS	
Investment Income (Loss)	\$ 2,049
Total Additions	<u>2,049</u>
DEDUCTIONS	
Benefits	<u>-</u>
Total Deductions	<u>-</u>
CHANGE IN NET POSITION	<u>2,049</u>
Net Position, Beginning of Year	<u>163,815</u>
NET POSITION, END OF YEAR	<u><u>\$ 165,864</u></u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic accounting financial statements of the Town of Paxton have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town of Paxton (the Town) is a political subdivision of the Commonwealth of Massachusetts, located in Worcester County. The Town was incorporated in 1765. The Town provides general governmental services to its residents, including public safety, public works, health and human services and culture and recreation. The Town is governed by an elected three-member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In Fiscal Year 2013, it was determined that no entities met the required GASB-39 and GASB-62 criteria of component units.

Paxton Housing Authority

The Housing Authority is a separate autonomous board. In addition, the Housing Authority determines its own budget and has no special financing relationship with the Town. Therefore, the financial activities of the Housing Authority have been excluded from these financial statements.

Paxton Municipal Electric Light Department

The condensed financial statements of the Paxton Electric Light Department are included in the Proprietary Fund Types column and Business-Type Activity column of the basic financial statements. The complete financial statements can be obtained from the administration offices at 578 Pleasant Street, Paxton, Massachusetts 01612.

B. Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing educational services.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Joint Ventures (Continued)

Wachusett Regional School District

The School District, created in 1950 as a body politic and corporate and political subdivision of the Commonwealth of Massachusetts, provides education to students in grades kindergarten through twelve (K-12) from five (5) member towns.

The School District is governed by a twenty (20)-member board composed of the representatives of the member towns. The Town is indirectly liable for debt and other expenses incurred by the School District. The Town's annual operation assessment for the School District for Fiscal Year 2013 amounted to \$5,250,964, which represented approximately 10 percent of the total assessments to the five (5) towns. Separate financial statements may be obtained by writing to the Treasurer of the District at Jefferson School, 1745 Main Street, Jefferson, MA 01522.

Bay Path Regional Vocational Technical School

Bay Path Regional Vocational Technical School belongs to the Southern Worcester County Regional Vocational School District. The School District, created in 1972 as a body politic and corporate and political subdivision of the Commonwealth of Massachusetts, provides education to students in grades nine through twelve (9-12) from the Towns of Auburn, Charlton, Dudley, North Brookfield, Oxford, Paxton, Rutland, Spencer, Southbridge and Webster. The School District is governed by a School Committee consisting of representatives from the member Towns. The Town is indirectly liable for debt and other expenses incurred by the School District. The Town's annual assessment for the School District for Fiscal Year 2013 amounted to \$220,329, which represented approximately 3 percent of the total assessments to the ten (10) towns. Separate financial statements may be obtained by writing to the Treasurer of the District at 57 Old Muggett hill Road , Charlton, MA 01507.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Town as a whole. These statements include the financial activities of the Primary Government, except for fiduciary funds. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental-type activities of the Town at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operation or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-Wide and Fund Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Town.

Fund Financial Statements

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information to the Town at this more detailed level. The focus of Governmental Fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary Funds are reported by type.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), and
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Property taxes and other items not identifiable as program revenues are reported as general revenues.

Interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental Fund

Governmental Fund financial statements are reported using the flow of *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means 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, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Investment income is susceptible to accrual. Other receipts and revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund Financial Statements (Continued)

The following major governmental funds are reported:

General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund's fund balance is available to the Town for any purpose provided it is expended or transferred according to the general laws of Massachusetts.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Proprietary fund reporting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. The Town's proprietary funds are all classified as Enterprise Funds. Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. All of the Town's Enterprise Funds are major funds.

Water Fund

The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the Town.

Electric Light Fund

The Electric Light Fund is used to account for the revenues generated from the charges for electric distribution provided to the residential and commercial users of the Town.

Non-Major Funds

The non-major governmental funds consist of other special revenue, capital project and permanent funds that are aggregated and presented in the non-major governmental funds column on the governmental funds financial statements. The following described the general use of these fund types:

Special Revenue Fund

The *Special Revenue Fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than permanent funds or capital projects.

Permanent Funds

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

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fiduciary Funds

The Town's *Fiduciary Funds* are related to OPEB Trust Funds and Agency Accounts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Fund is used to account for assets held in a purely custodial capacity.

E. Cash and Cash Equivalents

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

F. Investments

Government-Wide and Fund Financial Statements

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits in any financial institution may not exceed certain levels within the financial institution.

Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U. S. Government or agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

G. Accounts Receivables

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met. These receivables are considered 100% collectible.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventories

Government-Wide and Fund Financial Statements

Inventories are not material in total to the government-wide and fund financial statements and therefore are recorded as expenditures at the time of purchase.

I. Materials and Supplies

Government-Wide and Fund Financial Statements

Materials and supplies in the Electric Light Department are inventories of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and are stated at cost on a first-in, first-out basis.

J. Prepaid Expenses

Government-Wide and Fund Financial Statements

Prepaid expenses in the Electric Light Fund consist predominately of prepayments on purchased power.

K. Capital Assets

Government-Wide Financial Statements

Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets, excluding infrastructure assets, are defined by the Town as assets with an initial individual cost of at least \$2,000 and an estimated useful life in excess of three years. Infrastructure assets are capitalized when the original cost exceeds \$25,000. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year, no interest was capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Capital Assets (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and improvements	10-40	20-50
Improvements other than buildings	20	–
Machinery, vehicles and equipment	3-25	5-10
Infrastructure	30-100	50
Municipal Electric Light – Utility plant	–	33

Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

L. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the Statement of Net Position.

Fund Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are not eliminated from the individual fund statements.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

Government-Wide Financial Statements

Operating transfers between and within governmental funds are eliminated from the governmental activities in the Statement of Net Position.

Fund Financial Statements

Operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

O. Net Position and Fund Balances

Government-Wide Financial Statements (Net Position)

Net Position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net Position has been “restricted for” the following:

“Grants and Other Statutory Restrictions” represent restrictions placed on assets by outside parties.

“Permanent Funds – Expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent Funds – Non-Expendable” represents amounts held in trust for which only investment earnings may be expended.

Fund Financial Statements (Fund Balances)

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted Fund Balance

This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Net Position and Fund Balances (Continued)

Fund Financial Statements (Fund Balances) (Continued)

Committed Fund Balance

These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which is the Town meeting action and can be modified or rescinded only through these actions. Committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned Fund Balance

This classification reflects the amounts constrained by the Town's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and Town board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned Fund Balance

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

P. Long-Term Debt

Government-Wide Financial Statements

Long-term debt is reported as liabilities in the government-wide statement of Net Position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Investment Income

Investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

R. Compensated Absences

Under terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service.

Sick leave and vacation benefits are accrued as a liability using the vesting method.

The liability includes the employees who are currently eligible to receive termination benefits and those the Town has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end.

Vested or accumulated vacation and sick leave are reported as liabilities and are expensed as incurred.

Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities. For Enterprise Funds, the entire amount of compensated absences is reported as a fund liability.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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 revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

T. Post-Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 75 to 90 percent share of insurance premiums in the general and enterprise funds in the fiscal year paid. For the fiscal year ending June 30, 2013, the expenditure totaled \$65,873.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Total Column

Government-Wide and Fund Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

At the Annual Town Meeting, the Board of Selectmen and Finance Committee present an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Town Meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions.

In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation.

"Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted. Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

Encumbrances of unexpended budgetary balances at year-end (continuing appropriations) do not constitute liabilities and, therefore, are presented in the governmental funds as a reservation of fund balance. Budgeted amounts for the General Fund are as originally adopted or as amended by Town vote, including continuing appropriations at the beginning of the year and excluding continuing appropriations at year-end.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

While the Town is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and GAAP basis are as follows:

Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

The adjustments necessary to reconcile the GAAP and Budgetary Basis Statements are as follows:

<u>General Fund</u>	<u>Revenues</u>	<u>Expenditures</u>
Revenues /Expenditures (GAAP Basis)	\$11,008,890	\$10,878,289
Net adjustment for 60-day revenue and refund accruals	29,399	
Reverse effect of non-budgeted state Contributions for Teachers Retirement	(116,022)	(116,022)
Net Investment losses of Stabilization Fund arrangements	(4,017)	
MWPAT interest subsidy	(3,591)	(3,591)
Reported on a Budgetary Basis	<u>\$10,914,659</u>	<u>\$10,758,676</u>

NOTE 4 – CASH AND INVESTMENTS

A cash 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."

A. Custodial Credit Risks – Deposits – Town's Financials

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2013, the carrying amount of deposits totaled \$2,189,818 and the bank balance totaled \$2,366,271. Of the bank balance total, \$1,534,380 was covered by Federal Depository Insurance and the Depositors Insurance Fund, and \$831,891 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Cash and Cash Equivalents

Cash and cash equivalents are reported in the financial statements as follows:

Governmental Activities:	
Cash and cash equivalents	\$ 1,849,187
Business-Type Activities – Water:	
Cash and cash equivalents	261,809
Fiduciary-Type Activities - Agency	
Cash and cash equivalents	<u>78,822</u>
Total	<u>\$ 2,189,818</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 4 – CASH AND INVESTMENTS (Continued)

B. Cash and Cash Equivalents (Continued)

**Business-Type Activities – Electric Light Fund:
(December 31, 2012)**

Current cash and cash equivalents	\$ 868,518
Non-current cash and cash equivalents	<u>1,761,532</u>
Total	<u>\$ 2,630,050</u>

C. Investment Policies

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Interest Rate Risk – Deposits

The Town does not include in its investment policy provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Town invests in term securities out to a maximum of five years to help limit the amount of exposure to fair value losses that would arise if interest rates were to rise.

Credit Risk – Deposits

The Town does not include in its investment policy a provision that would further limit its investment choices.

Concentration of Credit Risk – Deposits

The Town places no limit on the amount that may be invested in any one issuer.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 4 – CASH AND INVESTMENTS (Continued)

Investments

As of June 30, 2013, the Town had the following investments and maturities:

	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1 to 5
Debt Securities:			
U.S. government obligations	\$ 28,992	\$	\$ 28,992
U.S. government agencies	55,375		55,375
Corporate bonds	102,708		102,708
Money Market mutual funds	104,403	104,403	
Bond mutual funds	53,943	53,943	
	<u>345,421</u>	<u>\$ 158,346</u>	<u>\$ 187,075</u>
Other Investments:			
Certificates of deposit	431,784		
Equity Securities – Domestic Stock	171,916		
Equity mutual funds	101,712		
Total	<u>\$ 1,050,833</u>		

Custodial Credit Risks – Investments

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Town's investments in U.S. Treasury/Agency Securities, Certificates of Deposit, and Money Market Mutual Funds, the Town does not have custodial risk exposure at June 30, 2013. The Town's account is with Commonwealth Financial Network LLC, which is protected in accordance with the Securities Investor Protection Corporation (SIPC) up to \$500,000 including cash claims up to \$250,000. The Town has also arranged for additional insurance protection for cash and investments to supplement its SIPC coverage. The additional insurance protection covers total account net equity in excess of \$500,000/\$100,000. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk – Investments

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town's exposure to credit risk as of June 30, 2013 is as follows:

Related Debt Instruments	Fair Value	Aaa	A1	BAA1	Not Rated
U.S. government obligations	\$ 28,992	\$ 28,992	\$	\$	\$
U.S. government agencies	55,375	55,375			
Corporate bonds	102,708		67,033	35,675	
Money market mutual fund	104,403				104,403
Bond mutual funds	53,943				53,943
Total	<u>\$ 345,421</u>	<u>\$ 84,367</u>	<u>\$ 67,033</u>	<u>\$ 35,675</u>	<u>\$ 158,346</u>

Concentration of Credit Risk

The Town places no limit on the amount it may invest in one issuer. More than 5% of the Town's investments are invested in a CitiBank CD amounting to 5.26%, a Sallie Mae Bank CD amounting to 6.69% and a First Bank CD amounting to 7.15% of the Town's total investments.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 4 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk (Continued)

As of December 31, 2012, the Electric Light Fund had the following investments and maturities:

	<u>Investment Maturities (in Years)</u>			
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 TO 10</u>
Debt Securities:				
U.S. government treasury/agencies	\$ 265,148	\$	\$ 151,720	\$ 113,428
Corporate bonds	719,843	27,074	337,027	355,742
Money market mutual funds	31,235	31,235		
Total	<u>\$ 1,016,226</u>	<u>\$ 58,309</u>	<u>\$ 488,747</u>	<u>\$ 469,170</u>

Custodial Credit Risks

Investment custodial risk is the risk that, in the event of a failure by the counterparty, the Electric Light Department will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Department's investments in U.S. Treasury/Agency Securities, Certificates of Deposit, and Money Market Mutual Funds, the Department does not have custodial risk exposure at December 31, 2012. The Department's account is with Commonwealth Financial Network LLC, which is protected in accordance with the Securities Investor Protection Corporation (SIPC) up to \$500,000 including cash claims up to \$250,000. The Department has also arranged for additional insurance protection for cash and investments to supplement its SIPC coverage. The additional insurance protection covers total account net equity in excess of \$500,000/\$100,000. The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk

The Electric Light Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Electric Light Fund's exposure to credit risk as of December 31, 2012 is as follows:

<u>Related Debt Instruments</u>	<u>Fair Value</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>	<u>A+</u>	<u>A</u>	<u>A-</u>	<u>Not Rated</u>
U.S. government treasury/agencies	\$ 265,148	\$ 265,148	\$	\$ 90,920	\$ 87,650	\$ 148,886	\$ 133,898	\$ -
Corporate bonds	719,843		258,489	90,920	87,650	148,886	133,898	-
Money Market mutual funds	31,235							31,235
Total	<u>\$ 1,016,226</u>	<u>\$ 265,148</u>	<u>\$ 258,489</u>	<u>\$ 90,920</u>	<u>\$ 87,650</u>	<u>\$ 148,886</u>	<u>\$ 133,898</u>	<u>\$ 31,235</u>

Concentration of Credit Risk

The Electric Light Company places no limit on the amount it may invest in one issuer. More than 5 percent of the Electric Light's investments are invested in a Pepsico Bond amounting to 5.83% of the Electric Light Company's total investments.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 5 – TAXES RECEIVABLE

A. Real and Personal Property

The taxes are an enforceable lien on property as of July 1. Taxes are levied for the fiscal year and are generally payable in two installments.

Exceptions apply to the due dates for tax payments if levies are not timely assessed. State law limits the amount of property tax assessments to 2.5 percent of the full and fair value of property, subject to local override provisions.

The following is a summary of the property tax calendar used for the 2013 tax levies.

July 1, 2012

First half tax bills are mailed to taxpayers.

October 1, 2012

First half tax bills are due.

December 30, 2012

Second half tax bills are mailed to taxpayers.

April 1, 2013

Second half tax bills are due.

Property taxes are based on assessments as of January 1. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th.

By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100 percent of fair cash value. Taxes are due and payable on July 1st.

After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, payments are due on October 1st and April 1st. If bills are mailed after December 31st, the entire balance is not due until April 1st or thirty (30) days after the bills were mailed, whichever is later.

Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of fourteen (14) percent is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from April 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

An allowance for uncollectible accounts is estimated based on historical trends and specific account analysis. The Town anticipates the collection of all outstanding receivables. All delinquent accounts are charged interest at the rate of fourteen percent (14%) per annum. Fourteen days after the due date for the second half tax bill for real estate, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the Tax Collector may proceed to file a lien against the delinquent taxpayer's property.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 5 – TAXES RECEIVABLE (Continued)

B. Taxes Receivable

The prior fiscal year's tax levy is used as a base and cannot increase by more than 2.5 percent (excluding new growth) unless an override or debt exemption is voted. The following is a calculation of this limitation:

Fiscal Year 2013 authorized tax levy limit	\$ 7,349,926
2.5 percent increase	183,748
New growth	32,465
Debt exclusions	<u>1,087,437</u>
Fiscal Year 2013 authorized tax levy limit	<u>\$ 8,653,576</u>

In any fiscal year, the total property taxes assessed cannot exceed 2.5 percent of the full and fair cash valuation of the Town. The following is a calculation of this limitation:

<u>Assessed Valuation</u>		<u>Levy Ceiling</u>
\$ 450,155,265	x 2.5%	\$ 11,253,882

The actual 2013 tax levy was \$8,651,984 leaving an excess levy capacity of \$1,592. The tax rate for 2013 was \$19.22 for all classifications.

C. Excise Taxes

The excise taxes consist of motor vehicle excise. Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The excise taxes are due at various intervals since tax commitments are completed periodically based on dates of ownership of motor vehicles. Interest accrues on delinquent taxes after thirty (30) days from the billing date.

The tax calculation for motor vehicle excise taxes is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. The allowance for uncollectible accounts is based on historical trends and special account analysis. Taxes receivable consisted of the following at June 30, 2013:

Real Estate		
Current Year	\$ 96,964	\$ –
Prior Years	<u>2,709</u>	99,673
Personal Property		
Current Year	461	
Prior Years	919	
Less allowance for uncollectibles	<u>(321)</u>	<u>1,059</u>
Net Property Taxes		100,732
Motor Vehicle Excise		
Current Year	46,073	
Prior Years	42,720	
Less allowance for uncollectibles	<u>(31,862)</u>	56,931
Tax Liens and Possessions		<u>142,562</u>
Total Taxes Receivable		<u>\$ 300,225</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013 (December 31, 2012 for the Electric Light Fund):

Governmental Funds:

Major Fund:

Trash Disposal	\$	24,912
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Non-Major Fund:

Anna Maria College Grant		47,623
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Total Governmental Funds		<u>\$ 72,535</u>
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Proprietary Funds:

Business-Type Activities – Enterprise Funds

Water

Accounts Receivable	\$ 76,738	
Liens Receivable	<u>1,802</u>	<u>78,540</u>

Electric Light Fund

Accounts Receivable	363,897	
Other Receivables:		
Liens Receivable	34,087	
Berkshire Wind Renewable Energy Credits	55,436	
Purchased Power Refunds Receivable	3,985	
Interest Receivable	<u>333</u>	<u>457,738</u>

Total Business-Type Activities		<u>\$ 536,278</u>
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NOTE 7 – INTERGOVERNMENTAL RECEIVABLES

The Town's intergovernmental receivable balance represents reimbursements from other governments for expenditures incurred, aid awarded, or debt incurred, and consisted of the following at June 30, 2013:

	<u>Current</u>	<u>Non-Current</u>
Governmental Funds		
General Fund and Non-Major:		
<i>U. S. Department of Homeland Security:</i>		
Disaster Assistance - FEMA:	\$ 22,467	\$
<i>Commonwealth of Massachusetts:</i>		
<i>Department of Revenue:</i>		
Abatement Reimbursement Program	4,800	
<i>Department of Veterans Services:</i>		
Veteran's Benefits	7,179	
<i>School Building Authority:</i>		
School Building Assistance – Capital Portion	314,020	1,540,812
<i>Executive Office of Public Safety and Homeland Security:</i>		
Police 911 Grant	1,985	
<i>Department of Transportation:</i>		
Chapter 90 Highway	<u>3,453</u>	
Total Governmental Funds	<u>\$ 353,904</u>	<u>\$ 1,540,812</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 8 – SPECIAL ASSESSMENTS

Special assessment consisted of Title V loan receivables at June 30, 2013 as follows:

Governmental Funds:

Title V Septic Loans – Current	\$ 7,811	
Title V Septic Loans – Non-Current	<u>92,607</u>	<u>\$ 100,418</u>

NOTE 9 – PREPAID EXPENSES

Prepayments of the Electric Light Fund at December 31, 2012 consisted of the following:

Prepaid insurance	\$ 13,933
Pension assessment	33,923
Power contracts	19,792
Service contracts	<u>6,359</u>
Total Prepaid Expenses	<u>\$ 74,007</u>

NOTE 10 – PURCHASED POWER WORKING CAPITAL

As described more fully in Note 17C, the Department is a member and participant of the Massachusetts Municipal Wholesale Electric Company (MMWEC). The purchased power working capital is an amount held by MMWEC. The implementation of the Working Capital Program began in 1985. MMWEC participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that a set amount of capital be held from which it may pay the Department's power obligations when they are due. The fund is replenished as needed from the Department's monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the fund as of December 31, 2012 is \$439,507.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 11 – CAPITAL ASSETS

Governmental Activities

Capital asset activity for the year ended June 30, 2013 (December 31, 2012 in the Electric Light Fund) was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 2,673,115	\$	\$	\$ 2,673,115
Construction in progress	<u>1,218,370</u>	<u>155,072</u>	<u>(1,373,442)</u>	<u>—</u>
Total Capital Assets Not Being Depreciated	<u>3,891,485</u>	<u>155,072</u>	<u>(1,373,442)</u>	<u>2,673,115</u>
Capital Assets Being Depreciated:				
Buildings and improvements	20,634,063	10,000	1,193,335	21,837,398
Machinery, furnishings and equipment	1,241,224	87,728	(129,813)	1,199,139
Vehicles	3,210,053	109,428	(179,000)	3,140,481
Infrastructure	<u>1,511,217</u>	<u>193,075</u>	<u>93,812</u>	<u>1,798,104</u>
Total Capital Assets Being Depreciated	<u>26,596,557</u>	<u>400,231</u>	<u>978,334</u>	<u>27,975,122</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,418,729)	(433,658)	86,295	(8,766,092)
Machinery, furnishings and equipment	(732,423)	(92,048)	129,813	(694,658)
Vehicles	(2,097,696)	(208,554)	179,000	(2,127,250)
Infrastructure	<u>(394,052)</u>	<u>(107,719)</u>	<u>—</u>	<u>(501,771)</u>
Total Accumulated Depreciation	<u>(11,642,900)</u>	<u>(841,979)</u>	<u>395,108</u>	<u>(12,089,771)</u>
Total Capital Assets Being Depreciated, Net	<u>14,953,657</u>	<u>(441,748)</u>	<u>1,373,442</u>	<u>15,885,351</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,845,142</u>	<u>\$ (286,676)</u>	<u>\$ —</u>	<u>\$ 18,558,466</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 11 – CAPITAL ASSETS (Continued)

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
<u>Business-Type Activity</u>				
Water Fund				
Capital Assets Not Being Depreciated:				
Land	\$ 641,400	\$	\$	\$ 641,400
Total Capital Assets Not Being Depreciated	<u>641,400</u>	<u>—</u>	<u>—</u>	<u>641,400</u>
Capital Assets Being Depreciated:				
Buildings and improvements	689,100			689,100
Machinery, furnishings and equipment	30,929			30,929
Vehicles	26,420			26,420
Infrastructure	<u>2,961,244</u>			<u>2,961,244</u>
Total Capital Assets Being Depreciated	<u>3,707,693</u>	<u>—</u>	<u>—</u>	<u>3,707,693</u>
Less Accumulated Depreciation For:				
Buildings and improvements	(304,262)	(15,602)		(319,864)
Machinery, furnishings and equipment	(13,876)	(4,702)		(18,578)
Vehicles	(13,210)	(3,774)		(16,984)
Infrastructure	<u>(1,688,149)</u>	<u>(74,736)</u>		<u>(1,762,885)</u>
Total Accumulated Depreciation	<u>(2,019,497)</u>	<u>(98,814)</u>	<u>—</u>	<u>(2,118,311)</u>
Total Water Fund Capital Assets Being Depreciated, Net	<u>1,688,196</u>	<u>(98,814)</u>		<u>1,589,382</u>
Total Water Fund Capital Assets, Net	<u>\$ 2,329,596</u>	<u>\$ (98,814)</u>	<u>\$ —</u>	<u>\$ 2,230,782</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
	<u>Jan. 1, 2012</u>			<u>Dec. 31, 2012</u>
<u>Business-Type Activity</u>				
Electric Light Fund (as of Dec. 31, 2012)				
Capital Assets Not Being Depreciated:				
Land	\$ 319	\$	\$	\$ 319
Construction in progress	<u>15,277</u>	<u>913,546</u>		<u>928,823</u>
Total Capital Assets Not Being Depreciated	<u>15,596</u>	<u>913,546</u>	<u>—</u>	<u>929,142</u>
Capital Assets Being Depreciated:				
Distribution plant	3,779,944	80,455	(16,674)	3,843,725
General plant	<u>1,030,183</u>	<u>52,737</u>	<u>(5,305)</u>	<u>1,077,615</u>
Total Capital Assets Being Depreciated	<u>4,810,127</u>	<u>133,192</u>	<u>(21,979)</u>	<u>4,921,340</u>
Less Accumulated Depreciation For:				
Electric utility plant	(3,113,024)	(188,997)	16,674	(3,285,347)
General plant	<u>(572,205)</u>	<u>(51,509)</u>	<u>5,305</u>	<u>(618,409)</u>
Total Accumulated Depreciation	<u>(3,685,229)</u>	<u>(240,506)</u>	<u>21,979</u>	<u>(3,903,756)</u>
Total Electric Light Fund Capital Assets Being Depreciated, Net	<u>1,124,898</u>	<u>(107,314)</u>	<u>—</u>	<u>1,017,584</u>
Total Electric Light Fund Capital Assets, Net	<u>\$ 1,140,494</u>	<u>\$ 806,232</u>	<u>\$ —</u>	<u>\$ 1,946,726</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 11 – CAPITAL ASSETS (Continued)

Depreciation expense was charged as direct expense to programs to the governmental functions as follows:

	Governmental Activities	Business-Type Activities
General government	\$ 13,814	\$
Public safety	394,652	
Education	206,717	
Public works	198,570	
Health and human services	5,257	
Culture and recreation	22,969	
Water		98,816
Electric Light		240,506
Total Depreciation Expense	\$ 841,979	\$ 339,322

NOTE 12 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2013 are summarized as follows:

	<u>Transfers In</u>
	General Fund
<u>Transfers Out</u>	
Non-Major Governmental Funds	\$ 28,270
Total Transfers Out	\$ 28,270

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 13 – LONG-TERM OBLIGATIONS

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Original Amount Issued</u>	<u>Outstanding June 30, 2013</u>
<u>Governmental-Type Funds</u>					
Inside Debt:					
Town Hall Design	2.41%	03/15/09	03/15/14	\$ 50,000	\$ 10,000
Dump Truck	3.22%	03/15/09	03/15/19	250,000	150,000
Title V Septic MWPAT	2.00%	08/01/02	08/01/20	146,102	61,430
SCABA Breathing Apparatus	3.66%	06/29/12	06/15/21	210,446	186,000
Public Safety Complex	3.66%	06/29/12	06/15/22	100,000	90,000
School Green Repairs	3.66%	06/29/12	06/15/22	688,321	609,000
Window Replacement	3.89%	03/15/09	03/15/26	114,000	80,700
Public Works Building Renovations	4.03%	03/15/09	03/15/28	40,100	31,100
Public Safety Complex	4.10%	03/15/09	03/15/28	5,800,000	4,563,200
Total Inside Debt					<u>5,781,430</u>
Outside Debt:					
School Construction – Refunding	4.53%	06/15/99	06/15/19	6,616,000	1,980,000
Public Safety Complex USDA	4.38%	09/15/08	09/15/48	2,000,000	1,800,000
Total Outside Debt					<u>3,780,000</u>
Total – Governmental Type Debt					<u>\$ 9,561,430</u>
<u>Business-Type Funds:</u>					
<u>Water Fund</u>					
Outside Debt:					
Worcester Pump Station	4.52%	06/15/99	06/15/19	534,000	\$ 150,000
Total – Business-Type Funds					<u>\$ 150,000</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

The annual requirements to amortize notes payable obligations outstanding as of June 30, 2013 are as follows:

Governmental-Type Activities

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Anticipated</u> <u>State</u> <u>Subsidy</u>	<u>Total</u> <u>Net Due</u>
2014	\$ 847,697	\$ 404,158	\$ 1,251,855	\$ 341,227	\$ 910,628
2015	837,697	372,710	1,210,407	340,794	869,613
2016	832,697	340,642	1,173,339	340,361	832,978
2017	827,697	308,765	1,136,462	339,928	796,534
2018	827,697	273,526	1,101,223	339,495	761,728
2019-2023	2,577,945	908,265	3,486,210	339,858	3,146,352
2024-2028	1,760,000	463,869	2,223,869		2,223,869
2029-2033	250,000	207,813	457,813		457,813
2034-2038	250,000	153,125	403,125		403,125
2039-2043	250,000	98,437	348,437		348,437
2044-2048	250,000	43,750	293,750		293,750
2049	50,000	2,187	52,187		52,187
Total	\$ 9,561,430	\$ 3,577,247	\$ 13,138,677	\$ 2,041,663	\$ 11,097,014

Business-Type Activities

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Anticipated</u> <u>State</u> <u>Subsidy</u>	<u>Total</u> <u>Net Due</u>
2014	\$ 25,000	\$ 6,938	\$ 31,938	\$	\$ 31,938
2015	25,000	5,787	30,787		30,787
2016	25,000	4,635	29,635		29,635
2017	25,000	3,480	28,480		28,480
2018	25,000	2,323	27,323		27,323
2019	25,000	1,162	26,162		26,162
Total	\$ 150,000	\$ 24,325	\$ 174,325	\$ —	\$ 174,325

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

During the fiscal year ended June 30, 2013 (including the Electric Light Enterprise Fund at December 31, 2012) the following changes occurred in long-term liabilities:

	<u>Balance Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance Ending</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
General obligation bonds	\$ 10,452,894	\$	\$ 891,464	\$ 9,561,430	\$ 847,697
Lease purchase obligation	299,247		40,658	258,589	42,695
Other post-employment benefits	183,396	373,423	65,873	490,946	–
Compensated absences	64,738	85,157	64,738	85,157	60,778
Total Governmental Activity Long-Term Liabilities	<u>\$ 11,000,275</u>	<u>\$ 458,580</u>	<u>\$ 1,062,733</u>	<u>\$ 10,396,122</u>	<u>\$ 951,170</u>
<u>Business-Type Activities:</u>					
<u>Water Activities</u>					
General obligation bonds	\$ 175,000	\$	\$ 25,000	\$ 150,000	\$ 25,000
Compensated absences		740		740	740
Total Water Activities Long-Term Liabilities	<u>175,000</u>	<u>740</u>	<u>25,000</u>	<u>150,740</u>	<u>25,740</u>
<u>Electric Light Activities (as of December 31, 2012)</u>					
Other post-employment benefits	\$ 9,118	\$ 63,149	\$ 16,306	\$ 55,961	\$ –
Total Electric Light Activities Long-Term Liabilities	<u>9,118</u>	<u>63,149</u>	<u>16,306</u>	<u>55,961</u>	<u>–</u>
Total Business-Type Activities	<u>\$ 184,118</u>	<u>\$ 63,889</u>	<u>\$ 41,306</u>	<u>\$ 206,701</u>	<u>\$ 25,740</u>

A. Lease Purchase Obligations

The Town has a lease with Ford Motor Credit for the purchase of a new Police Vehicle. The agreement dated September 15, 2011 stipulates three (3) annual payments of \$12,000 at an interest rate of 6.50%.

The Town has a lease with Groton Leasing Group, LLC. for the purchase of an ambulance. The agreement dated October 24, 2008 stipulates ten (10) annual payments of \$14,995 at an interest rate of 5.83%.

The Town has a lease with Caterpillar Financial Services Corporation for the purchase of a loader. The agreement dated October 6, 2011 stipulates ten (10) payments of \$27,028 at an interest rate of 3.75%.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

A. Lease Purchase Obligations (Continued)

The future minimum capital lease obligations and the net present value of these minimum lease payments as of June 30, 2013 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 54,023
2015	42,023
2016	42,023
2017	42,023
2018	42,023
2019	27,028
2020	27,028
2021	<u>27,029</u>
Total Minimum Lease Payments	303,200
Less amount representing interest	<u>(44,611)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 258,589</u>

The assets acquired through capital leases are reported as follows:

<u>ASSET:</u>	<u>Governmental Activities</u>
Vehicles	\$ 410,323
Less: Accumulated Depreciation	<u>(138,963)</u>
Total	<u>\$ 271,360</u>

B. Compensated Absences

The Town's liability for vested and unpaid compensated absences (accrued sick benefits and vacation) is unfunded, and amounts to \$85,897 at June 30, 2013.

C. Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a Town may authorize indebtedness up to a limit of five percent (5%) of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2013 totaled \$5,781,430.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 13 – LONG-TERM OBLIGATIONS (Continued)

C. Legal Debt Limit (Continued)

The following is a computation of the legal debt limit as of June 30, 2013:

Equalized Valuation – Real Estate and Personal Property (2012)	<u>\$ 483,942,700</u>
Debt Limit: 5% of Equalized Value	\$ 24,197,135
Total Debt Outstanding	9,711,430
Less: Debt Outside Debt Limit	<u>(3,930,000)</u>
Inside Debt Outstanding	<u>5,781,430</u>
Inside Debt Excess Borrowing Capacity at June 30, 2013	<u>\$ 18,415,705</u>

D. Overlapping Debt

The Town pays assessments, which includes debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The primary overlapping debt relates to the regional school district of which the Town is a member. The following summary sets forth the long-term debt of the governmental unit, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt as of June 30, 2013.

	<u>Total</u>	<u>Town Share</u>
Wachusett Regional School District	\$ 24,945,000	\$ 2,399,700
Bay Path Regional Vocational Technical School District	<u>9,100,000</u>	<u>291,200</u>
Total	<u>\$ 34,045,000</u>	<u>\$ 2,690,900</u>

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE

GASB Statement No. 45

The Town has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*, for certain post-employment health care and life insurance benefits provided by the Town. The Town has adopted the requirements of GASB Statement No. 45 and thus recognizes the cost of post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the Town's future cash flows.

A. Plan Description

The Town provides for certain health care benefits in accordance with Massachusetts General Law Chapter 32B, to employees who retire in accordance with various predetermined years of service and under various age requirements under a single employer-defined benefit plan. Changes to plan design and contribution rates must be negotiated through the collective bargaining process.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)

A. Plan Description (Continued)

At July 1, 2012, the most recent valuation date, the number of Plan participants is as follows:

Active Employees	39
Retirees and Beneficiaries	<u>13</u>
Total	<u>52</u>

B. Funding Policy

The contribution requirements of plan members and the Town are negotiated as part of the collective bargaining process. Currently, members receiving these benefits contribute 60 percent of the cost of the plans, the dollar amount depending on which plan they choose. The cost of administering the Plan is paid for by the Town.

The required contribution is based on the projected pay-as-you-go financing requirements. For Fiscal Year 2013, total Town premiums plus implicit costs for the retiree medical program and transfers to the OPEB Trust are \$436,572, consisting of \$373,423 for the governmental activities and \$63,149 for the business-type activities.

C. Annual OPEB Cost and Net OPEB Obligations

The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer using the alternative measurement method in accordance with GASB 45 parameters. 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 actuarial liabilities over a period not to exceed thirty (30) years. The components of the Town's annual OPEB cost for the year, the actual contribution to the plan and changes to the Town's net OPEB obligation are presented in the following table:

	Business-Type Activities		
	Governmental Activities	Electric Light Dec. 31, 2012	Total
Annual Required Contribution	\$ 363,018	\$ 61,638	\$ 424,656
Interest on Net OPEB Contribution	7,793		7,793
Adjustment to Annual Required Contribution	<u>2,612</u>	<u>1,511</u>	<u>4,123</u>
Annual OPEB Cost (Expense)	373,423	63,149	436,572
Contributions made during the fiscal year	<u>65,873</u>	<u>16,306</u>	<u>82,179</u>
Change in Net OPEB Obligation	307,550	46,843	354,393
 Net OPEB Obligation – Beginning of Year	 <u>183,396</u>	 <u>9,118</u>	 <u>192,514</u>
 Net OPEB Obligation – End of Year	 <u>\$ 490,946</u>	 <u>\$ 55,961</u>	 <u>\$ 546,907</u>

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 actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)

C. Annual OPEB Cost and Net OPEB Obligations (Continued)

The following table shows the components of the Town's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the Town's net OPEB obligation to the plan:

The Governmental Activities OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/13	\$ 373,423	18.0%	\$ 490,946
06/30/12	91,738	29.0%	183,396
06/30/11	91,738	28.0%	122,264

The Electric Light Fund's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ 63,149	26.0%	\$ 55,961
12/31/11	73,415	24.0%	9,118
12/31/10	73,415	21.0%	117,484

D. Funded Status and Funding Progress

The schedule of funding progress, presented as Required Supplementary Information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The valuation of an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding funding status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 14 – OTHER POST-EMPLOYMENT BENEFITS PAYABLE (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) 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 plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 15 – FUND BALANCES

The following is a summary of the Governmental Fund Balances of the Town at June 30, 2013:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-Spendable:			
Permanent Funds	\$ _____	\$ 317,912	\$ 317,912
Restricted:			
Federal and State grants		25,989	25,989
Revolving		159,310	159,310
Gifts and other		558,650	558,650
Capital projects		60,462	60,462
Permanent expendable funds		219,067	219,067
Debt service	<u>2,623</u>		<u>2,623</u>
Total Restricted	<u>2,623</u>	<u>1,023,478</u>	<u>1,026,101</u>
Committed:			
Capital stabilization	136,017		136,017
Next year's budget	<u>389,222</u>	<u>27,195</u>	<u>416,417</u>
Total Committed	<u>525,239</u>	<u>27,195</u>	<u>552,434</u>
Assigned:			
Encumbrances – General Government	<u>9,849</u>		<u>9,849</u>
Total Assigned	<u>9,849</u>	<u>–</u>	<u>9,849</u>
Unassigned:	<u>894,471</u>	<u>–</u>	<u>894,471</u>
Total Governmental Fund Balance	<u>\$ 1,432,182</u>	<u>\$ 1,368,585</u>	<u>\$ 2,800,867</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 16 – SPECIAL TRUST FUNDS

Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may, for the purpose of creating a stabilization fund, appropriate in any year an amount not exceeding ten (10) percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten (10) percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The Stabilization Fund may be appropriated in a Town at a Town Meeting for any lawful purpose.

At June 30, 2013 balances in the General Stabilization Fund of \$140,738 and the Capital Stabilization Fund of \$202,524 were reported in the General Fund as stipulated by GASB #54.

NOTE 17 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

A. Litigation

The Town is subject to legal actions and claims that are subject to many uncertainties. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

B. Town Meeting – Fiscal Year 2014

The Town of Paxton operates under the "Open Meeting" concept where each voter has an equal vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2013 do not reflect the Fiscal Year 2014 Town Meeting action. The Annual Town Meeting on May 6, 2013 authorized a Fiscal Year 2014 operating and capital budget as follows:

From Tax Levy	\$ 10,693,163
From Water Fund	732,596
From Title V Septic Fund	7,698
From Capital Stabilization	136,017
From Free Cash	389,222
From other available funds	19,497
	<u>\$ 11,978,193</u>

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

C. Massachusetts Municipal Wholesale Electric Company

The Town of Paxton, acting through its Light Department, is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC). Through its membership in MMWEC, the Light Department is contingently liable on various projects in which they participated as detailed below.

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, 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.

Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

Paxton Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department 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).

D. Berkshire Wind Cooperative Corporation

The Paxton Municipal Light Department (Department) is a Member of the Berkshire Wind Cooperative Corporation (Cooperative).

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) for the purpose of financing, owning, constructing and operating wind general facilities located on Brodie Mountain in the Towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility).

MMWEC sells all of the capability of the Berkshire Wind Facility (Capability) to the Members of the Cooperative (Members) under Power Purchase Agreements (PPAs). Among other things, the PPAs require each Cooperative 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.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

D. Berkshire Wind Cooperative Corporation (Continued)

In addition, should a Cooperative Member fail to make any payment when due, other Cooperative Members may be required to increase 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 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 Paxton Municipal Light Department has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under both the PPA, the Department is required to make certain payments to the Cooperative. Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension of interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the Department is required to pay to the Cooperative its share of the Operation and Maintenance (O&M) costs of the Berkshire Wind Facility.

The Paxton Municipal Light Department has entered into a PPA with the Berkshire Wind Cooperative Corporation. Under both the PPA, the Department is required to make certain payments to the Cooperative.

Under the PPA, each Participant is unconditionally obligated to make all payments due to the Berkshire Wind Cooperative Corporation, 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 Department is required to pay to the Cooperative its share of the Operation and Maintenance (O & M) costs of the Berkshire Wind Facility.

As of December 31, 2012, total capital expenditures for the Berkshire Wind Facility amounted to \$58,990,077 of which \$2,485,000 presents the amount associated with the Department share of the Capability of the Berkshire Wind Facility of which it is a member, although such amount is not allocated to the Department. The Cooperative's debt outstanding for the Berkshire Wind Facility includes bonds totaling \$62,490,000, of which \$2,632,000 is associated with the Department's share of Capability of the Berkshire Wind Facility of which it is a member, although such amount is not allocated to the Department.

As of December 31, 2012, the Cooperative's total future debt service requirement on outstanding bonds issued for the Projects is \$97,190,000, of which \$4,095,000 is anticipated to be billed to the Department in the future.

TOWN OF PAXTON, MASSACHUSETTS
Notes to Basic Financial Statements
Year Ended June 30, 2013

NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

D. Berkshire Wind Cooperative Corporation (Continued)

The estimated aggregate amount of the Department required payments under the PSAs exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2012 and estimated for future years is shown below:

2013	\$ 227,000
2014	227,000
2015	227,000
2016	228,000
2017	228,000
2018-2022	1,137,000
2023-2027	1,138,000
2028-2030	683,000
	<u>\$ 4,095,000</u>

Through membership in MMWEC, the Department 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 (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of 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 percent interest in the W. F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8 percent 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 Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 was extended to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6 percent ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March 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 (Act).

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

D. Berkshire Wind Cooperative Corporation (Continued)

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, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

The Cooperative has constructed and installed 10 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.

NOTE 19 – PENSION PLANS

A. County Retirement Plan

Description

The Town contributes to the Worcester County Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a Worcester Regional Retirement Board. Former school teachers and certain administrators are members of the Commonwealth of Massachusetts' Teachers Retirement System, to which the Town does not contribute. All pension benefits and expenses paid by the Teachers Retirement System are funded by the Commonwealth of Massachusetts (Commonwealth). The amount of these "on-behalf" payments totaled \$116,022 for the fiscal year ended June 30, 2013 and, accordingly, are reported in the General Fund as intergovernmental revenues and employee benefits and insurance.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the 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. Cost-of-living adjustments granted after 1997 must be approved by the System and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained through the Worcester Regional Retirement System located at Midstate Office Park, 23 Midstate Drive, Suite 106, Auburn, MA 01501.

TOWN OF PAXTON, MASSACHUSETTS

Notes to Basic Financial Statements

Year Ended June 30, 2013

NOTE 19 – PENSION PLANS (Continued)

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from five percent (5%) to eleven percent (11%) of annual covered compensation. The Town is required to pay into the System, its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32B of the Massachusetts General Laws governs the contributions of plan members and the Town. The Town contributions to the System for the fiscal years ended June 30, 2013, 2012 and 2011 are shown below, which equaled its required contribution for each fiscal year.

<u>Year Ended June 30</u>	<u>Contribution</u>		
	<u>Town</u>	<u>Electric Light</u>	<u>Total</u>
2013	\$ 265,354	\$ 62,572	\$ 327,926
2012	245,926	54,913	300,839
2011	223,573	50,721	274,294

C. Schedule of Funding Progress

The Schedule of Funding Progress, presented as Required Supplementary Information, following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additionally, the Schedule of Employee Contributions, presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

NOTE 20 – RESTATEMENT

In Fiscal Year 2013, the amortization of the Massachusetts School Building Authority (MSBA) receivable was changed from the straight-line method to the interest-rate method. The liabilities related to two prior lease purchase agreements were reported. The beginning net position of the governmental activities has been restated to reflect the changes:

Governmental activities net position, as reported	\$ 12,510,924
Adjust for change to interest-rate method of receivable amortization	488,038
Adjust for capital lease purchase obligation not reported	<u>(69,247)</u>
Governmental activities, as restated	<u>\$ 12,929,715</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PAXTON, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Other Post-Employment Benefit Plan – Town
Year Ended June 30, 2013

SCHEDULE OF FUNDING PROGRESS

Other Post-Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2012	\$ 163,814	\$ 3,938,766	\$ 3,774,952	4.20%	\$ 2,651,331	142.4%
07/01/2009	163,814	1,511,107	1,347,293	10.80%	2,583,370	52.2%

SCHEDULE OF CONTRIBUTION FUNDING

Other Post-Employment Benefits				
Fiscal Year Ended June 30,	Annual OPEB Cost	Actual Contributions Made	Percentage Contributed	
2013	\$ 436,572	\$ 82,179	18.82%	
2012	165,153	48,573	29.41%	
2011	165,153	46,243	28.00%	
2010	165,153	44,591	27.00%	

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	July 1, 2012
Actuarial cost method	Alternative Method – Entry age normal cost method
Amortization method	30 years, level dollar

Actuarial Assumptions:

Investment rate of return	4.00%
Retirement age	63
Medical/drug cost trend rate	5% in Year 1 increasing by 1% to the ultimate trend rate of 6% per year

Plan Membership:

Current retirees, beneficiaries and dependents	33
Current active members	<u>36</u>
Total	<u>69</u>

TOWN OF PAXTON, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Worcester Regional Retirement System
Year Ended June 30, 2013

SCHEDULE OF FUNDING PROGRESS

Pension System							
Worcester Regional Retirement System							Town
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)	Town's Share of Unfunded Actuarial Accrued Liability
01/01/12	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%	\$ 5,058,998
01/01/10	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.6%	3,947,600
01/01/07	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%	2,663,900

SCHEDULE OF CONTRIBUTION FUNDING

Pension System					
Worcester Regional Retirement System				Town	
Fiscal Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	Town's Percentage of System-Wide Actual Contributions
2013	\$ 35,400,000	\$ 35,400,000	100%	\$ 397,926	.93%
2012	33,100,000	33,100,000	100%	300,839	.91%
2011	31,200,000	31,200,000	100%	274,294	.88%

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	January 1, 2012
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Increasing at 4.0% per year for the remaining UAL and 4.5% for the ERI program
Remaining amortization period	29 years remaining as of July 1, 2011
Asset valuation method	The actuarial value of assets is the market value of assets as of the valuation date reduced by a percentage of gains and losses recognized for the past four years. Investments gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 120% of market value.

Actuarial Assumptions:

Investment rate of return	8.00%
Projected salary increases	3.00%
Cost of living adjustments	3.00% for the first \$14,000 of retirement income.

Plan Membership:

Retired participants and beneficiaries receiving benefits	2,742
Vested participants	1,874
Disabled retiree participants	233
Active participants	6,377
Total	11,226

SUPPLEMENTARY SCHEDULES

TOWN OF PAXTON, MASSACHUSETTS
Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2013

	<u>Fund Balances</u> <u>July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing</u> <u>Sources (Uses)</u>	<u>Fund Balances</u> <u>June 30, 2013</u>
SPECIAL REVENUE FUNDS					
Federal and State Grants:					
Highway Grants	\$	\$ 194,694	\$ 194,694	\$	\$ -
State Polling Hours		690	690		-
Library Grants	31,030	5,811	14,114		22,727
Public Safety Grants	(12,115)	113,702	100,741		846
Council on Aging Grants		6,335	6,335		-
Cultural Council Grant	4,254	3,874	5,712		2,416
Other:					
Conservation Wetland	27,354	1,937	959		28,332
Council on Aging Revolving	18,719	2,646	3,592		17,773
Anna Maria Public Safety Grant	43,644	476,984	440,766		79,862
Library Revolving	429	3,110	2,624		915
Ambulance Gifts	734	250			984
Fire Gifts	279	45,300	42,465		3,114
Emergency Management Gifts		1,500	588		912
Police Gifts	11,999	41,484	18,203		35,280
Historical Gifts	3,141	745			3,886
Council on Aging Gifts	9,448	4,717	4,236		9,929
Library Gifts	84,292				84,292
250 th Celebration Gifts	892	4,999	1,668		4,223
Police Off Duty	7,281	68,743	71,110		4,914
Police Firearms	4,745	25,501	25,766		4,480
Recreation Revolving	52,162	53,217	54,013		51,366
Sale of Cemetery Lots	137,818	1,014	450		138,382
Title V Septic Loan Program	128,467	54,558	34,474	(7,698)	140,853
Insurance Reimbursements	20,963			(20,572)	391
Cable Access	74,697	16,188	16,480		74,405
Wachusett EMS	11,340	11,119	11,340		11,119
War Bonds	6,535	(19)			6,516
Conservation Fund	23,548	(68)			23,480
Municipal Housing	250				250
Total Special Revenue Funds	\$ 691,906	\$ 1,139,031	\$ 1,051,020	\$ (28,270)	\$ 751,647

(Continued on page 71)

TOWN OF PAXTON, MASSACHUSETTS
Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2013
(Continued from Page 70)

	<u>Fund Balances July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balances June 30, 2013</u>
CAPITAL PROJECT FUND:					
Paxton Center School Green Repair	72,687	162,344	155,072		79,959
Total Capital Project Fund	<u>72,687</u>	<u>162,344</u>	<u>155,072</u>	<u>-</u>	<u>79,959</u>
PERPETUAL PERMANENT FUNDS					
Cemetery Funds	113,164	1,171	2,636		111,699
Library Funds	190,438	5,100			195,538
School Funds	1,000				1,000
Other Funds	9,675				9,675
Total Perpetual Permanent Funds	<u>314,277</u>	<u>6,271</u>	<u>2,636</u>	<u>-</u>	<u>317,912</u>
PERMANENT FUNDS					
Cemetery Funds	24,694	796	2,613		22,877
Library Funds	109,920	14,550	2,914		121,556
School Funds	480	(4)			476
Other Funds	74,399	(241)			74,158
Total Permanent Funds	<u>209,493</u>	<u>15,101</u>	<u>5,527</u>	<u>-</u>	<u>219,067</u>
TOTAL - NON-MAJOR GOVERNMENTAL FUNDS	<u>\$ 1,288,363</u>	<u>\$ 1,322,747</u>	<u>\$ 1,214,255</u>	<u>\$ (28,270)</u>	<u>\$ 1,368,585</u>

TOWN OF PAXTON, MASSACHUSETTS
Schedule of Real Estate and Personal Property Taxes
July 1, 2012 to June 30, 2013

	Uncollected Taxes July 1, 2012	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2013	Uncollected Taxes Per Detail June 30, 2013
REAL ESTATE TAXES						
Levy of 2013	\$ -	\$ 8,486,856	\$ 33,977	\$ 8,355,915	\$ 96,964	\$ 96,964
Levy of 2012	84,924		21,941	60,274	2,709	2,709
Levy of 2011	2,057			2,057		-
	<u>86,981</u>	<u>8,486,856</u>	<u>55,918</u>	<u>8,418,246</u>	<u>99,673</u>	<u>99,673</u>
PERSONAL PROPERTY TAXES						
Levy of 2013		164,765	1,650	162,654	461	461
Levy of 2012	1,001			236	765	765
Levy of 2011	38				38	38
Levy of 2009	363		14,886	(14,639)	116	116
Levy of 2008	52			52		-
	<u>1,454</u>	<u>164,765</u>	<u>16,536</u>	<u>148,303</u>	<u>1,380</u>	<u>1,380</u>
TOTAL REAL ESTATE AND PERSONAL PROPERTY TAXES	\$ 88,435	\$ 8,651,621	\$ 72,454	\$ 8,566,549	\$ 101,053	\$ 101,053

TOWN OF PAXTON, MASSACHUSETTS

Schedule of Motor Vehicle Excise Taxes

July 1, 2012 to June 30, 2013

	Uncollected Taxes July 1, 2012	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2013	Uncollected Taxes Per Detail June 30, 2013
MOTOR VEHICLE TAXES						
Levy of 2013	\$ 37,612	\$ 538,649	\$ 9,597	\$ 482,979	\$ 46,073	\$ 46,073
Levy of 2012	8,007	48,888	4,478	72,628	9,394	9,394
Levy of 2011	3,391		374	2,162	5,471	5,471
Levy of 2010	2,232			1,052	2,339	2,339
Levy of 2009	2,403			607	1,625	1,625
Levy of 2008	1,649			672	1,731	1,731
Levy of 2007	833			115	1,534	1,534
Levy of 2006	1,895				833	833
Levy of 2005	17,908			10	1,895	1,895
Prior Years					17,898	17,898
TOTAL MOTOR VEHICLE EXCISE TAXES	\$ 75,930	\$ 587,537	\$ 14,449	\$ 560,225	\$ 88,793	\$ 88,793

TOWN OF PAXTON, MASSACHUSETTS
Schedule of Tax Liens and Tax Possessions
July 1, 2012 to June 30, 2013

	<u>Uncollected Accounts July 1, 2012</u>	<u>Commitments</u>	<u>Abatements and Adjustments</u>	<u>Collections Net of Refunds and Overpayments</u>	<u>Uncollected Accounts June 30, 2013</u>	<u>Uncollected Accounts Per Detail June 30, 2013</u>
TAX LIENS						
TAX POSSESSIONS	\$ 243,939	\$ 28,161	\$	\$ 228,372	\$ 43,728	\$ 43,728
	<u>98,834</u>				<u>98,834</u>	<u>98,834</u>
TOTAL TAX LIENS AND TAX POSSESSIONS	<u>\$ 342,773</u>	<u>\$ 28,161</u>	<u>\$ -</u>	<u>\$ 228,372</u>	<u>\$ 142,562</u>	<u>\$ 142,562</u>

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Honorable Board of Selectmen
Town of Paxton
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 governmental activities, each major fund, and the aggregate remaining fund information of the Town of Paxton in Paxton, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Paxton's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Paxton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Paxton's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Paxton's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Paxton's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Scanlon & Associates, LLC". The script is cursive and fluid, with the letters "S", "A", and "C" being particularly prominent.

Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 15, 2014