

TOWN OF PHILLIPSTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2013

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2013

TOWN OF PHILLIPSTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the "Town") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 those 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 purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2013 and the respective changes in financial position where applicable in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note B, the Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the funding and contribution progress for pension benefits and other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
May 2, 2014

Management's Discussion and Analysis

As the management of the Town of Phillipston, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information as listed in the table of contents.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$5.4 million (*total net position*). Of this amount, approximately \$1.5 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by over \$0.5 million in fiscal year 2013. This increase was in line with expectations as disbursements of over \$0.4 million were capitalized as capital asset additions, combined with favorable budget variances of almost \$0.1 million.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$1.0 million, which is an increase of nearly \$0.2 million from the prior year. This increase was due primarily to favorable budget variances as discussed above. Of the ending fund balance over \$0.5 million is *available for spending* at the government's discretion as *unassigned fund balance* in the General Fund. The remainder is earmarked for specific expenditures or unassigned due to deficit balances.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$0.5 million, or approximately 16.6% percent of total general fund expenditures.
- The Town's total bonded debt and long-term notes decreased by \$25,645 at June 30, 2013 to \$689,624 from its prior year balance. This decrease was due to the normal scheduled principal repayments that were made against the Town's outstanding general obligations and notes payable in fiscal year 2013.
- In fiscal year 2013, the Town decreased its short-term borrowings liabilities by \$389,453 to \$397,675 at June 30, 2013.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the Town's assets and 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 of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and recreation, fringe benefits, and debt service. The Town does not have any business-type activities to report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into a single category – governmental funds.

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

- Nonspendable —amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities	
	June 30, 2013	June 30, 2012
<u>Assets</u>		
Current and other assets	\$ 2,059,244	\$ 2,216,006
Capital assets, net	4,504,612	4,322,708
Total assets	<u>6,563,856</u>	<u>6,538,714</u>
<u>Liabilities</u>		
Long term liabilities	663,979	689,624
Other liabilities	511,791	919,375
Total liabilities	<u>1,175,770</u>	<u>1,608,999</u>
<u>Net Position</u>		
Invested in capital assets	3,425,185	2,946,190
Restricted	510,185	540,244
Unrestricted	1,452,716	1,443,281
Net Position	<u>\$ 5,388,086</u>	<u>\$ 4,929,715</u>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$5.4 million (*total net position*). This represents an increase of approximately \$0.5 million from the prior year. This increase was in line with expectations as disbursements of over \$0.4 million were capitalized as capital asset additions, combined with favorable budget variances of almost \$0.1 million.

The largest portion (63.6%) of the Town’s net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town

uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (9.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, (27%), may be used to meet the government's ongoing obligations to citizens and creditors.

The condensed statement of changes in net position is as follows:

	Governmental Activities	
	2013	2012
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 270,587	\$ 247,497
Operating grants and contributions	450,681	165,012
Capital grants and contributions	395,047	263,814
General revenues:		
Property taxes	2,883,865	2,773,763
Intergovernmental	196,989	200,715
Other	234,923	217,430
Total revenues	<u>4,432,092</u>	<u>3,868,231</u>
<u>Expenses</u>		
General government	901,885	473,082
Public safety	751,066	723,854
Education	1,700,030	1,664,655
Public works	432,421	330,147
Health and human services	110,660	97,407
Culture and recreation	44,565	45,732
Debt service	33,094	32,547
Total expenses	<u>3,973,721</u>	<u>3,367,424</u>
Increase in net position	458,371	500,807
Net Position – beginning of the year	<u>4,929,715</u>	<u>4,428,908</u>
Net Position – end of the year	<u>\$ 5,388,086</u>	<u>\$ 4,929,715</u>

Governmental Activities. During 2013, Operating grants and contributions represented approximately 10.2% of total revenues. This was up significantly from the prior year of 4.3% and due to new Community Development funds received in the current year that did not exist in the prior year. Town property taxes made up approximately 65.1% of total revenues. This represented a dip in percentage from approximately 71.7% in the prior year. Dollar amount increases were in line with expectations however the overall ratio to total revenue was reduced due to the increase in operating grants and contributions as discussed previously. No other revenues sources were greater than 10% of total revenues in fiscal years 2013 or 2012.

The Town's largest expense categories are general government, public safety, education and public works. Dollar amounts in these expense categories are consistent with the prior year except general government which increased significantly due to Community Development expenses as previously discussed. The Town expects activities in Community Development to continue into fiscal 2014.

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$1.0 million. This increase was due primarily to favorable budget variances as discussed above. Of the ending fund balance over \$0.5 million is *available for spending* at the government's discretion as *unassigned fund balance* in the General Fund. The remainder is earmarked for specific expenditures or unassigned due to deficit balances.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$0.5 million, while total fund balance was nearly \$0.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 16.6% of total general fund expenditures, while total fund balance represents approximately 27.0% of that same amount.

The Town maintains a Community Preservation Fund. This fund is restricted for historical preservation and conservation of open space. At June 30, 2013, the Community Preservation Fund balance had nearly \$0.3 million, and was consistent with the prior year.

The remainder of the governmental funds are; (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$50,000; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$183,000; or (3) unassigned deficit in the amount of approximately \$(389,000). The negative balance in the unassigned category is entirely due to the negative fund balance the Town is reporting in its capital projects funds, which is currently funded by short-term borrowings. The Town expects to fund this deficit in future years with permanent financing.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2013, the Town's investment in capital assets totaled approximately \$4.5 million, net of accumulated depreciation. Net fixed assets increased approximately \$0.2 million in 2013 as capital additions of over \$0.4 million exceeded 2013 depreciation expense of almost \$0.2 million.

Additional information on the Town capital assets can be found in Note III.D to the financial statements.

Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$1.1 million, which consists of long-term debt in the form of general obligation bonds of approximately \$0.7 million and short-term borrowings in the form of BANs and a SAN of almost \$0.4 million. The Town's long-term debt decreased by \$25,645, which was the normal, scheduled principal payment for 2013. The Town's short-term borrowings decreased almost \$0.4 million from the prior year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$9.4 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in Notes III.E and F to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The Bureau of Labor Statistics of the U.S. Department of Labor reported a 8.3% unemployment rate for Worcester County as of June 30, 2013, which represents a significant improvement from a recent high of 10.2% in December 2009. While there are signs of economic improvement in the labor markets, there continues to be great volatility.
- Town's real estate tax base is made up predominantly of residential taxes, which in 2014 are approximately 94% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy.
- The Town's housing market has stabilized from the recent downward trend. However, housing prices are still below their 2005 peaks. The Town anticipates that its housing market will appreciate as the economy rebounds. However, the extent, timing or certainty of a complete housing rebound cannot be reasonably estimated at this time.
- Inflationary trends in the region are consistent with state and national indices.

These factors, amongst others, were considered in preparing the Town's budget for the 2014 fiscal year. Town set its tax rate for 2014 in December 2013.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Selectmen, Town Hall, 50 The Common, Phillipston, Massachusetts 01331.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2013

Assets	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 1,438,717
Receivables, net of allowance for uncollectible accounts:	
Real estate and personal property taxes	494,471
Motor vehicle excise	54,403
Ambulance	21,559
Septic loan program	50,094
Capital assets not being depreciated	1,308,200
Capital assets, net of accumulated depreciation	<u>3,196,412</u>
 Total Assets	 <u><u>6,563,856</u></u>
 Liabilities	
Warrants and accounts payable	82,721
Other liabilities	5,750
Bond anticipation notes payable	397,675
Noncurrent liabilities:	
Due within one year	25,645
Due in more than one year	<u>663,979</u>
 Total Liabilities	 <u><u>1,175,770</u></u>
 Net Position	
Invested in capital assets	3,425,185
Restricted:	
Nonexpendable permanent funds	50,619
Community preservation funds	276,776
Other purposes	182,790
Unrestricted	<u>1,452,716</u>
 Total Net Position	 <u><u>\$ 5,388,086</u></u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 901,885	\$ 74,764	\$ 389,187	\$ 152,000	\$ (285,934)
Public safety	751,066	159,682	3,556	-	(587,828)
Education	1,700,030	-	19,416	41,762	(1,638,852)
Public works	432,421	32,157	-	201,285	(198,979)
Health and human services	110,660	2,908	20,568	-	(87,184)
Culture and recreation	44,565	1,076	17,954	-	(25,535)
Interest expense	33,094	-	-	-	(33,094)
Total Primary Government	<u>\$ 3,973,721</u>	<u>\$ 270,587</u>	<u>\$ 450,681</u>	<u>\$ 395,047</u>	<u>(2,857,406)</u>
<u>General Revenues:</u>					
					2,883,865
					196,989
					200,736
					31,388
					2,799
					<u>3,315,777</u>
					458,371
<u>Net Position:</u>					
					4,929,715
					<u>\$ 5,388,086</u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 913,043	\$ 276,776	\$ 248,898	\$ 1,438,717
Receivables, net of allowance:				
Real estate and personal property taxes	359,377	2,091	-	361,468
Tax liens	132,715	288	-	133,003
Departmental and other	54,403	-	71,653	126,056
Total Assets	\$ 1,459,538	\$ 279,155	\$ 320,551	\$ 2,059,244
Liabilities and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 75,104	\$ -	\$ 7,617	\$ 82,721
Other liabilities	5,750	-	-	5,750
Short-term notes payable	-	-	397,675	397,675
Deferred revenues	487,676	2,379	71,653	561,708
Total Liabilities	568,530	2,379	476,945	1,047,854
Fund Balances:				
Nonspendable:	-	-	50,619	50,619
Restricted:	-	276,776	182,790	459,566
Committed	276,575	-	-	276,575
Assigned	66,327	-	-	66,327
Unassigned	548,106	-	(389,803)	158,303
Total Fund Balances	891,008	276,776	(156,394)	1,011,390
Total Liabilities and Fund Balances	\$ 1,459,538	\$ 279,155	\$ 320,551	\$ 2,059,244

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Governmental Fund Balances	\$ 1,011,390
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,504,612
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	561,708
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	<u>(689,624)</u>
Net Position of Governmental Activities	<u><u>\$ 5,388,086</u></u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 2,807,052	\$ 41,850	\$ -	\$ 2,848,902
Intergovernmental	228,044	17,754	796,719	1,042,517
Motor vehicle and other excises	200,502	-	-	200,502
Departmental and other revenue	13,773	-	146,890	160,663
License and permits	67,829	-	-	67,829
Penalties and interest on taxes	31,388	-	-	31,388
Fines and forfeitures	8,605	-	-	8,605
Investment income	2,627	-	172	2,799
Contributions and donations	-	-	200	200
Total Revenues	3,359,820	59,604	943,981	4,363,405
Expenditures:				
Current:				
General government	451,352	-	415,831	867,183
Public safety	576,887	-	82,849	659,736
Education	1,653,447	-	80,441	1,733,888
Public works	292,118	-	235,428	527,546
Health and human services	75,083	-	14,519	89,602
Culture and recreation	27,857	53,458	-	81,315
Fringe and Pension Benefits	160,743	-	-	160,743
Debt service:				
Principal maturities	25,645	-	-	25,645
Interest expense	33,094	-	-	33,094
State and county tax assessments	2,968	-	-	2,968
Total Expenditures	3,299,194	53,458	829,068	4,181,720
Other Financing Sources (Uses):				
Transfers in	9,797	-	158,125	167,922
Transfers out	(130,125)	(28,000)	(9,797)	(167,922)
Total Other Financing Sources (Uses)	(120,328)	(28,000)	148,328	-
Net Change in Fund Balances	(59,702)	(21,854)	263,241	181,685
FUND BALANCES – Beginning of year	950,260	298,630	(419,635)	829,255
FUND BALANCES – End of year	\$ 890,558	\$ 276,776	\$ (156,394)	\$ 1,010,940

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, 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 Fund Balances **\$ 181,685**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. Capital outlays totaled \$378,382 in 2013. Depreciation expense totaled \$196,478 in 2013. The net amount is reflected here as a reconciling item. 181,904

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Principal repayments on debt totaled \$25,645 in 2013; there were no long-term debt borrowings in 2013. 25,645

Revenues 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 differ between the two statements. The amount presented represents the difference based on the two methodologies. 68,687

Change in Net Position of Governmental Activities **\$ 457,921**

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a political subdivision of the Commonwealth of Massachusetts, located in Worcester County. The Town was incorporated in 1814 and is governed by Town Meeting. The operations of the Town are managed by an elected three-member Board of Selectmen. The Town provides general governmental services to its residents, including public safety, education through a regional district, public works and social services.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

B. Government-Wide and Fund Financial Statements

In 2013, the Town implemented GASB No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation, the basic financial statements were renamed to the *statement of net position* and *statement of revenues, expenses, and changes in net position*. These statements were formerly referred to as the *statement of net assets* and *statements of revenues, expenses and changes in net assets*. All previous references to net assets have been replaced with the concept of net position in accordance with GASB 63.

The Town did not have any assets or liabilities that were required to be reported as deferred outflows of resources and deferred inflows of resources in these financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported on these statements. Major individual government funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. For the most part, the effect of interfund activity has been removed from the governmental-wide financial statements.

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

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental funds:

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

Community Preservation Fund – is used to accumulate funds for historical preservation and conserving open space.

The *nonmajor governmental funds* consist of special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

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

The *capital projects funds* are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

It is the Town’s policy to use restricted resources first then unrestricted resources, as they are needed, when both restricted and unrestricted resources are available for use.

D. Assets, Liabilities, and Net Position or Equity

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

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes up to the statutory percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents. There was no restricted cash in 2013.

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

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Structures and improvements	20 to 40 years
Infrastructure	20 to 40 years
Equipment, furniture, fixtures and vehicles	10 to 20 years

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

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

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

Compensated Absences – It is the Town’s policy to permit full time employees to utilize vacation and sick-pay benefits. Employees must either use or sell back unused time within the fiscal year. Accordingly no amounts have been accrued as compensated absences as of the fiscal year end.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide statement of net position. Bond premiums and discounts, in addition to issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable and other short-term debt instruments are reported net of the applicable bond premium or discount.

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

Net Position – In the government-wide financial statements, net position reported as “invested in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt and

outstanding debt related to future state reimbursements for capital construction costs are not considered to be capital related debt.

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

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

Community preservation funds represent amounts used to accumulate funds for historical preservation and conserving open space.

Other purposes represent that are restricted by donors and state laws for specific governmental programs and uses.

Fund Equity – The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the governmental fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact. The Town's non-spendable fund balance reported in the nonmajor governmental funds consists of the corpus of endowments for various Town purposes.

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

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

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

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

The following table reflects the Town's fund equity categorizations in accordance with GASB 54:

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Non-Spendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 50,619	\$ 50,619
Restricted:				
General government	-	-	71,693	71,693
Public safety	-	-	28,229	28,229
Public works	-	-	32,054	32,054
Health and human services	-	-	49,876	49,876
Culture and recreation	-	-	938	938
Community preservation	-	276,776	-	276,776
Committed:				
General government	276,575	-	-	276,575
Assigned:				
General government	66,327	-	-	66,327
Unassigned	548,106	-	(389,803)	158,303
Totals	<u>\$ 891,008</u>	<u>\$ 276,776</u>	<u>\$ (156,394)</u>	<u>\$ 1,011,390</u>

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

At June 30, 2013, encumbrances totaled \$66,327 and were reported as assigned in the general fund. Warrant articles approved at Town Meeting totaled \$276,575 at June 30, 2013 and were included in the committed fund balance.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$68,000. This amount will be raised through taxation in fiscal year 2014.

The Town's capital projects fund has a legal deficit fund balance of \$389,803 at June 30, 2013. This deficit was covered by short-term borrowings of \$332,275 at June 30, 2013. The Town anticipates funding this deficit through future taxation.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust, which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits – 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 to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. However, the Town maintains private collateralization agreements, in addition to federal depository insurance, to assist it in mitigating this risk. At June 30, 2013, \$571,101 in bank deposits were not insured or collateralized by third parties

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

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment pool

(the Pool). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

Concentration of Credit Risk –The Town does not maintain balances in any single investment that would represent more than 5% of the Town’s total investments.

Investment Composition – At June 30, 2013, the Town had cash deposits of \$776,859, money market holdings of \$214,579 and monies invested with the Pool of \$447,279. The Town’s money market holdings and its investments with the Pool are classified as cash equivalents in these financial statements due to their short-term and liquid nature.

B. Receivables

Receivables reported in the government-wide financial statements for governmental activities as of June 30, 2013, net of applicable allowances for uncollectible accounts, include:

Property taxes	\$ 361,468
Tax liens and foreclosures	133,003
Excise taxes	54,403
Ambulance	21,559
Septic loans	<u>50,094</u>
Total	<u>\$ 620,527</u>

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

	<u>General Fund</u>	<u>Community Preservation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 300,558	\$ 2,091	\$ —	\$ 355,850
Tax liens and foreclosures	132,715	288	—	133,003
Excise taxes	54,403	—	—	54,403
Ambulance	—	—	21,559	21,559
Septic loans	<u>—</u>	<u>—</u>	<u>50,094</u>	<u>50,094</u>
Total	<u>\$ 487,676</u>	<u>\$ 2,379</u>	<u>\$ 71,653</u>	<u>\$ 561,708</u>

C. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		
	General Fund	Nonmajor Funds	Total
General Fund	\$ -	\$ 130,125	\$ 130,125 (1)
Community Preservation	-	28,000	28,000 (2)
Nonmajor Governmental Funds	9,797	-	9,797 (3)
	<u>\$ 9,797</u>	<u>\$ 158,125</u>	<u>\$ 167,922</u>

- (1) Transfers to nonmajor funds to paydown maturing BAN.
- (2) Transfers to nonmajor funds to paydown maturing BAN.
- (3) Transfers from general fund to supplement debt service related to Title V loans.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,308,200	\$ -	\$ -	\$ 1,308,200
Capital assets being depreciated:				
Buildings and improvements	4,448,578	186,235	(46,937)	4,587,876
Infrastructure	4,088,163	184,084	-	4,272,247
Machinery and equipment	968,454	-	-	968,454
Vehicles	1,395,330	55,000	-	1,450,330
Total capital assets being depreciated	<u>10,900,525</u>	<u>425,319</u>	<u>(46,937)</u>	<u>11,278,907</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,601,196)	(82,234)	-	(2,683,430)
Infrastructure	(3,513,130)	(14,617)	-	(3,527,747)
Machinery and equipment	(552,868)	(52,862)	-	(605,730)
Vehicles	(1,218,823)	(46,765)	-	(1,265,588)
Total accumulated depreciation	<u>(7,886,017)</u>	<u>(196,478)</u>	<u>-</u>	<u>(8,082,495)</u>
Total capital assets being depreciated, net	<u>3,014,508</u>	<u>228,841</u>	<u>(46,937)</u>	<u>3,196,412</u>
Governmental activities capital assets, net	<u>\$ 4,322,708</u>	<u>\$ 228,841</u>	<u>\$ (46,937)</u>	<u>\$ 4,504,612</u>

For the fiscal year ended June 30, 2013, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 4,168
Public safety	89,335
Education	26,836
Public works	<u>76,139</u>
Total	<u>\$ 196,478</u>

E. Temporary Debt

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund. Temporary notes outstanding at June 30, 2013 are payable as follows:

Type	Balance June 30, 2012	Additions	Retirements	Rollovers	Balance June 30, 2013
BAN - 0.9% maturing October 12, 2012	236,200	-	(96,800)	(139,400)	-
BAN - 0.85% maturing December 5, 2012	313,400	-	(55,125)	(258,275)	-
BAN - 0.55% maturing November 8, 2013	-	-	-	139,400	139,400
BAN - 0.53% maturing December 5, 2013	-	-	-	258,275	258,275
BAN - 0.55% maturing December 28, 2012	122,328	-	(122,328)	-	-
SAN - 0.55% maturing December 28, 2012	115,200	-	(115,200)	-	-
	<u>\$ 787,128</u>	<u>\$ -</u>	<u>\$ (389,453)</u>	<u>\$ -</u>	<u>\$ 397,675</u>

Short-term debt issued and outstanding in non-major governmental funds were used for the following purposes:

BAN – public safety (fire) equipment acquisition	\$ 258,275
BAN – land acquisition	74,000
BAN – public safety (ambulance) equipment acquisition	<u>65,400</u>
	<u>\$ 397,675</u>

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. The Town did not issue any new general obligation bonds in fiscal year 2013.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of five percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.”

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2013:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
General obligation bonds and notes payable	\$ 715,269	\$ -	\$ (25,645)	\$ 689,624	\$ 25,645
Total Long-Term Obligations	<u>\$ 715,269</u>	<u>\$ -</u>	<u>\$ (25,645)</u>	<u>\$ 689,624</u>	<u>\$ 25,645</u>

Bond and Note Indebtedness – General obligation bonds currently outstanding are as follows:

Description of Issue	Maturity Date	Interest Rate	Outstanding July 1, 2012	Additions	Retirements	Outstanding June 30, 2013
<u>Bonded Debt (all outside the debt limit):</u>						
MWPAT (Series 6: 97-1186) - Title V	8/1/2020	0.00%	\$ 69,116	\$ -	\$ 7,696	\$ 61,420
General Obligation Bond	2/25/1948	4.13%	<u>646,153</u>	<u>-</u>	<u>17,949</u>	<u>628,204</u>
Total bonded debt			<u>\$ 715,269</u>	<u>\$ -</u>	<u>\$ 25,645</u>	<u>\$ 689,624</u>

Future Debt Payoff – Payments on general long-term debt obligation bonds due in future years consist of the following:

Year Ending <u>June 30,</u>	Principal			Interest		
	Balance	Subsidy	Net Amount	Balance	Subsidy	Net Amount
2014	25,645	-	25,645	29,094	(3,181)	25,913
2015	25,645	-	25,645	27,921	(2,748)	25,173
2016	25,645	-	25,645	26,749	(2,316)	24,433
2017	25,645	-	25,645	25,575	(1,883)	23,692
2018	25,645	-	25,645	24,302	(1,350)	22,952
2019 - 2023	112,685	-	112,685	105,366	(1,713)	103,653
2024 - 2028	89,745	-	89,745	85,143	-	85,143
2029 - 2033	89,745	-	89,745	66,633	-	66,633
2034 - 2038	89,745	-	89,745	48,123	-	48,123
2039 - 2043	89,745	-	89,745	29,614	-	29,614
2044 - 2048	89,734	-	89,734	11,104	-	11,104
Total	<u>\$ 689,624</u>	<u>\$ -</u>	<u>\$ 689,624</u>	<u>\$ 479,624</u>	<u>\$ (13,191)</u>	<u>\$ 466,433</u>

MWPAT Loan Subsidies – The Town has entered into a loan agreement with the Massachusetts Water Pollution Abatement Trust (“MWPAT”). It is expected that the Town will be subsidized by MWPAT on a periodic basis for total interest costs of \$13,191 in fiscal years 2014 through 2023.

Authorized and Unissued Debt – At June 30, 2013, the Town had the following authorized and unissued amounts for unissued debt.

<u>Project</u>	<u>Amount Authorized</u>	<u>Spent to Date</u>	<u>Commitment Remaining</u>
Memorial School Boiler	\$ 143,246	\$ 57,528	\$ 85,718
Fire Tanker Truck	370,000	313,400	56,600
	<u>\$ 513,246</u>	<u>\$ 370,928</u>	<u>\$ 142,318</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Worcester County Retirement System (the “System”), a multiple-employer defined benefit pension plan established under Chapter 32 of Commonwealth of Massachusetts General Law (“MGL”) and is administered by the Worcester Regional Retirement Board (the “Board”).

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997

must be approved by the Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission that includes financial statements and required supplementary information. The report may be obtained by writing to the Board at Worcester Regional Retirement System, 2 Main Street, Worcester, MA 01608.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$46,137, \$48,104 and \$46,963, respectively. These contributions were equal to the required contribution for each year as set by the Retirement Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers' Retirement System

Teachers who were previously employed by the Town, when the Town had its own Elementary School and still collect retirement benefits participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$19,416 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Risk Financing

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 for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

D. Other Post-Employment Benefits

The Town has not elected the provisions of MGL Chapter 32 that pertain to providing other postemployment benefits besides pension benefits to retirees. Accordingly there is no liability for health, life or any other benefits except retirement as discussed above. Retirees may, for a period of up to 18 months after retirement pay entirely into the Town under COBRA, the cost of their monthly health insurance premium.

E. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2013, cannot be determined, Town management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2013.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The

amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is subject to certain Federal arbitrage regarding its long-term borrowing agreements. Failure to comply with the rules could result in penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town has pending cases filed with the Massachusetts Appellate Tax Board in which the telephone and telegraph companies have challenged their assessed valuations of personal property. In addition other real and commercial property cases final outcomes could be material to the overall financial statements. The Town has calculated high end range possible outcomes at approximately \$60,000. In addition interest would be assessed upon disbursement dating back to the date payment was received from the claimant. The financial statements as presented do not include a loss provision in the event of an unlikely outcome.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 became effective for the Town in fiscal year 2013 and did not have a material effect on its financials.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. This statement was intended to enhance the usefulness of its codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements. The provisions of GASB 62 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement was to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 became effective for the Town in fiscal year 2013 and its effect on the financial statements is described in Note 1.B of these financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement was to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of GASB 64 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

B. Future Year Implementation

In March 2012, the GASB issued GASB Statement No. 65; *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 66; *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

In June 2012, the GASB issued GASB Statement No. 67; *Financial Reporting for Pension Plans* This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

In June 2012, the GASB issued GASB Statement No. 68; *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-

term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

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

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this statement are effective for financial reporting periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * *

TOWN OF PHILLIPSTON

**SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013**

Worcester Regional Retirement System (All Participants)

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
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>(b-a/c)</i>
1/1/2012	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%
1/1/2010	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.6%
1/1/2007	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%
1/1/2004	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town of Phillipston	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contribution	Town's Percentage of System Wide Contributions
		<i>(a)</i>		<i>(b)</i>	<i>(b/a)</i>
2013	\$ 35,056,320	\$ 35,056,320	100.00%	\$ 46,137	0.13%
2012	33,072,000	33,072,000	100.00%	48,104	0.15%
2011	31,200,000	31,200,000	100.00%	46,963	0.15%
2010	28,800,000	28,800,000	100.00%	36,180	0.13%

See accompanying independent auditor's report.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
Revenues:						
Property taxes	2,856,832	\$ 2,856,832	\$ 2,813,313		\$ 2,813,313	\$ (43,519)
Intergovernmental	208,462	208,462	208,628		208,628	166
Motor vehicle and other excise	182,000	182,000	200,502		200,502	18,502
Departmental and other revenue	44,000	44,000	67,829		67,829	23,829
Licenses and permits	8,000	8,000	13,773		13,773	5,773
Fines and forfeitures	10,000	10,000	8,605		8,605	(1,395)
Penalties and interest on taxes	23,000	23,000	31,388		31,388	8,388
Investment income	1,500	1,500	1,765		1,765	265
Total Revenues	3,333,794	3,333,794	3,345,803		3,345,803	12,009
Expenditures:						
General government	569,170	601,491	451,352	\$ 98,726	549,628	51,863
Public safety	599,379	599,379	576,887	16,638	593,525	5,854
Education	1,701,040	1,701,040	1,653,447	-	1,653,447	47,593
Public works	226,109	226,109	292,118	92	292,210	(66,101)
Health and human services	87,345	87,345	75,083	33	75,116	12,229
Culture and recreation	43,747	43,747	27,857	9,726	37,583	6,164
Pension and fringe benefits	3,568	3,568	2,968	-	2,968	600
State and county tax assessments	166,137	166,137	141,327	2,142	143,469	22,668
Debt service	195,643	195,643	188,864	-	188,864	6,779
Total Expenditures	3,592,138	3,624,459	3,409,903	127,357	3,536,810	87,649
Other Financing Sources (Uses):						
Transfers in	172,132	198,846	198,846		198,846	-
Transfers out	(54,724)	(54,724)	(54,724)		(54,724)	-
Total Other Financing Sources (Uses)	117,408	144,122	144,122		144,122	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(140,936)	(146,543)	\$ 80,022		\$ (46,885)	\$ 99,658
Other Budgetary Items:						
Prior year encumbrances	83,353	83,353				
Snow and ice deficit	(16,954)	(16,954)				
Free cash	73,733	73,733				
Overlay surplus	-	5,607				
Other items	804	804				
Total Other Budgetary Items	140,936	146,543				
NET BUDGET	\$ -	\$ -				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by Town Meeting annually in Spring. Expenditures may legally exceed appropriations at the department line item level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting and the department head however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

Budgetary-to-GAAP Reconciliation – The Town’s general fund budget is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2013, is as follows:

	<u>Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenue on a budgetary basis			\$ 3,345,803
On behalf pension subsidy	\$ 19,416	\$ -	19,416
Sixty day receivable difference	(6,261)	-	(6,261)
Stabilization Fund revenue	-	862	862
Revenue on a GAAP basis	<u>\$ 13,155</u>	<u>\$ 862</u>	<u>\$ 3,359,820</u>
Expenditures on a budgetary basis			\$ 3,409,903
On behalf pension payments	\$ 19,416	\$ -	19,416
Debt recognition	-	(130,125)	(130,125)
Expenditures on a GAAP basis	<u>\$ 19,416</u>	<u>\$ (130,125)</u>	<u>\$ 3,299,194</u>
Transfers on a budgetary basis (net)			\$ 144,122
Debt recognition	-	(130,125)	(130,125)
Unbudgeted transfers	-	2,100	2,100
Stabilization transfers	-	(136,425)	(136,425)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (264,450)</u>	<u>\$ (120,328)</u>

Appropriation Deficits – During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$68,000. This amount will be raised through taxation in fiscal year 2014.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Board of Selectmen
Town of Phillipston
Phillipston, Massachusetts

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the “Town”) as of and for the year ended June 30, 2013, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated May 2, 2014. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2013 – 01 and 2013 – 02 in the accompanying schedule of findings to be material weaknesses. 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, other material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is in 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 "Roselli Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 2, 2014

**TOWN OF PHILLIPSTON, MASSACHUSETTS
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS
YEAR ENDED JUNE 30, 2013**

Finding

2013-01.

Type: Material Weakness, Deficiency in internal control

Area: Bank Reconciliations

Criteria: Bank reconciliations should be completed periodically to ensure that transactions are recorded in accordance with the objectives of management.

Statement of Condition: Bank reconciliations were not completed for a period of 10 months.

Cause and Effect: Policies regarding the preparation of monthly bank reconciliations are not enforced. This creates a possibility where errors or misappropriation of funds are undetected.

Recommendation: Take the necessary steps to create a monthly bank reconciliation process.

Corrective Action Plan: A new Treasurer was appointed during fiscal 2014. All bank reconciliations were prepared and caught up to date. A monthly process is now part of the Treasurer's policies.

2013-02.

Type: Material Weakness, Deficiency in internal control

Area: Cash reconciliation between Treasurer and Town Accountant

Criteria: Cash reconciliations should be completed periodically to ensure that transactions are recorded in accordance with the objectives of management.

Statement of Condition: Cash reconciliations were not completed for a period of 10 months.

Cause and Effect: Policies regarding the preparation of monthly cash reconciliations are not enforced. This creates a possibility where errors or misappropriation of funds are undetected.

Recommendation: Take the necessary steps to create a monthly cash reconciliation process.

Corrective Action Plan: A new Treasurer was appointed during fiscal 2014. All cash reconciliations were prepared and caught up to date. A monthly process is now part of the Treasurer's policies.