

TOWN OF LEICESTER, MASSACHUSETTS
Report on the Examination of Basic Financial Statements
For the Year Ended June 30, 2014

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Leicester, 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 Leicester, Massachusetts, as of and for the fiscal year ended June 30, 2014, 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 of Leicester, Massachusetts, as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance 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 through 11 and the *Schedule of Funding Progress and Employer Contributions* on pages 47 and 48 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 Leicester, Massachusetts' basic financial statements. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015, on our consideration of the Town of Leicester, Massachusetts' 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 of Leicester, Massachusetts' internal control over financial reporting and compliance.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

April 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Leicester, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Town's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Town's financial performance.

Financial Highlights

- The Town's assets exceeded its liabilities by \$30,748,638 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$31,791,049 or a decrease of \$1,042,411 (3%).
- At the close of the current fiscal year, the Town's total governmental funds reported total ending fund balance of \$6,402,473 this year, an increase of \$748,363 (13%).
- The General Fund's total fund balance increased \$959,062 (41%) to \$3,290,298. The ending General fund balance is 11% of revenues, transfers in and a capital lease and 11% of expenditures and transfers out.
- Total liabilities of the Town increased by \$103,122 (1%) to \$16,154,244 during the fiscal year. This was mainly attributed to a net increase in the Other Post Employment Benefits (OPEB) of \$1,010,809, in payroll withholdings of \$221,626 and in notes payable of \$138,400 and a net decrease in bonds and leases payable of \$1,196,801.
- The Town had General fund free cash certified by the Department of Revenue in the amount of \$1,811,336. The key factors that attributed to the free cash amount for fiscal year 2014 are, approximately, as follows:
 - Unexpended/unencumbered appropriations \$ 363,500.
 - Excess over budget – state and local receipts \$ 913,200.
 - Prior year free cash not appropriated \$ 372,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Leicester'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).

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 and pension benefits, interest, and state assessments. The Town does not have any functions classified as business-type 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 two categories: governmental 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 Leicester 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.

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.

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.

Financial Highlights

Statement of Net Position Highlights

	Governmental Activities 2014
Assets:	
Current assets	\$ 10,063,390
Capital assets	36,839,492
Total assets	46,902,882
Liabilities:	
Current liabilities (excluding debt and lease)	2,443,941
Current debt and lease	763,355
Noncurrent liabilities (excluding debt and lease)	8,199,513
Noncurrent debt and lease	4,747,435
Total liabilities	16,154,244
Net Position:	
Net Investment in Capital Assets	31,505,119
Restricted	2,938,921
Unrestricted	(3,695,402)
Total net position	\$ 30,748,638

Financial Highlights

Statement of Activities Highlights

	Governmental Activities 2014
Program Revenues:	
Charges for services	\$ 1,921,688
Operating grants and contributions	16,458,963
Capital grants and contributions	484,989
General Revenues:	
Property taxes	12,846,149
Motor vehicle and other excise taxes	1,312,353
Penalties and interest on taxes	187,040
Nonrestricted grants	1,578,516
Unrestricted investment income	27,848
Miscellaneous	5,666
Total revenues	34,823,212
Expenses:	
General government	1,390,653
Public safety	3,086,982
Public works	2,392,055
Education	19,746,407
Health and human services	341,950
Culture and recreation	229,884
Employee and pension benefits	7,993,547
State assessments	446,625
Interest	237,520
Total expenses	35,865,623
Change in net position	(1,042,411)
Net position - beginning of year	31,791,049
Net position - end of year	\$ 30,748,638

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$30,748,638 at the close of fiscal year 2014.

Net position of \$31,505,119 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); 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, \$2,938,921 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$3,695,402) 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 two categories of net position and a negative balance in the unrestricted category in the governmental activities. The unrestricted

in the governmental activities is a negative mainly as a result of recognizing the increase in the OPEB liability. The liability for OPEB as presented on the statement of net position is \$7,795,216.

The governmental activities net position decreased by \$1,042,411 (3%) during the current fiscal year. The key elements of the increase in net position for fiscal year 2014 are attributed to an increase in the repayment of debt for \$1,196,801 and decreases as the depreciation expense (normally spread out over the useful life of the asset) for the year of \$2,326,313 exceeding the acquisition of \$905,209 in new capital assets and as a result of recognizing this year's OPEB obligation of \$1,010,809.

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, the general fund *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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$6,402,473 an increase of \$748,363 (13%) in comparison with the prior year.

The breakdown of the governmental fund balances is as follows:

- Nonspendable fund balance - \$35,847 (1%).
- Restricted fund balance - \$2,756,687 (43%).
- Committed fund balance - \$395,824 (6%).
- Assigned fund balance - \$927,846 (14%).
- Unassigned fund balance – \$2,286,269 (36%).

At the end of the fiscal year, the *General Fund* reported a fund balance of \$3,290,298 increasing \$959,062 (41%) from the prior year. Of the \$3,290,298, the unassigned amount is \$2,360,435 (71%), the restricted amount is \$2,017 (1%) and the assigned amount is \$927,846 (28%). General fund revenues were \$1,113,978 (4%) more than the prior fiscal year while expenditures also increased by \$523,756 (2%). Other activities in the General Fund were net transfers from other funds of \$534,979 and capital lease financing of \$344,500.

The main components of the increases in general fund revenues as compared to the prior year related to property taxes in the amount of \$482,745 (4%), intergovernmental receipts of \$300,172 and excise and other taxes of \$183,482 (15%).

The major changes with the general fund expenditures from the prior fiscal year were as follows:

- Decrease in General government expenditures of \$161,072 (11%).
- Increase in Public safety expenditures of \$494,160 (20%).
- Increase in Employee and pension benefits expenditures of \$321,595 (5%).

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2014 was \$27,312,213. This was a decrease of \$900,947 (3%) over the previous year's budget.

There was an increase between the total original budget and the total final amended budget. The change is attributed to adjustments voted at the special town meetings in October 2013 and May 2014 for various budget operating line items.

General fund expenditures were less than budgeted by \$668,485. Of the \$668,485 in under budget expenditures, \$304,966 has been carried over to fiscal year 2015.

The variance with the final budget was a positive \$1,363,743 consisting of a revenue surplus of \$1,000,224 and an appropriation surplus of \$363,519.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities as of June 30, 2014 amounts to \$36,839,492.

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

Major capital events during the current fiscal year in the governmental type funds included the following:

- Police vehicles purchased for \$69,900.
- Fire truck leased for \$385,000.
- Radio communications upgrade for \$46,163.
- Highway dump truck purchase for \$172,531.
- Road infrastructure improvements for \$231,615.

Debt Administration. The Town's outstanding governmental debt, as of June 30, 2014, totaled \$5,094,720, of which \$683,303 is for school construction and remodeling projects, \$1,865,000 is for the police station construction and land, \$1,570,000 is for the acquisition of the Hillcrest Country Club, \$800,000 for water mains and \$176,417 for Title V septic loans.

The Town also has capital leases in for financing of a school mower and a fire department vehicle. The last lease is due in 2018. The Town currently owes \$295,459 on the leases consisting of \$277,670 in principal and \$17,789 in interest.

In addition, the Town has a bond anticipation note outstanding in the amount of \$138,400 for the radio communications upgrade in the police, fire and highway departments.

Please refer to notes 3D, 3F, 3G and 3H for further discussion of the major capital and debt activity.

Next Year's Annual Town Meeting

The Town of Leicester 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, 2014 do not reflect the fiscal year 2015 Town Meeting action with the exception of the free cash, overlay surplus, and appropriation amounts. The Annual Town Meeting on May 6, 2014 authorized a fiscal year 2015 operating and capital budget as follows:

From the tax levy		\$ 25,489,814
From Other Available Funds:		
General Fund:		
Unassigned fund balance:		
(Free cash)	\$ 602,880	
(Overlay surplus)	20,000	
Appropriations	42,020	664,900
Non-major Governmental Funds:		
Ambulance Reserve	228,000	
Conservation Commission Fees	10,000	
Septic Repair Programs	20,125	
Town Dog Fund	18,000	276,125
		<u>\$ 26,430,839</u>

Requests for Information

This financial report is designed to provide a general overview of the Town of Leicester'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, 3 Washburn Square, Leicester, Massachusetts.

BASIC FINANCIAL STATEMENTS

TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government
	Governmental
	Activities
<hr/>	
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 8,233,897
Investments	205,673
Receivables, net of allowance for uncollectibles:	
Property Taxes	195,861
Tax Liens	369,773
Excise and Other Taxes	120,937
Due from Other Governments	550,809
Tax Foreclosures	123,886
Total current assets	<u>10,063,390</u>
NONCURRENT:	
Capital Assets, net of accumulated Depreciation	
Nondepreciable	4,916,903
Depreciable	31,922,589
Total noncurrent assets	<u>36,839,492</u>
Total Assets	<u><u>46,902,882</u></u>
LIABILITIES	
CURRENT:	
Warrants Payable	964,335
Accrued Payroll	1,080,758
Payroll Withholdings	221,626
Tax Refund Payable	6,000
Accrued Interest	54,186
Other	21,781
Compensated Absences	95,255
Notes Payable	138,400
Bonds and Leases Payable	624,955
Total current liabilities	<u>3,207,296</u>
NONCURRENT:	
Compensated Absences	404,297
OPEB Obligation Payable	7,795,216
Bonds and Leases Payable	4,747,435
Total noncurrent liabilities	<u>12,946,948</u>
Total Liabilities	<u><u>16,154,244</u></u>
NET POSITION	
Net Investment in Capital Assets	31,505,119
Restricted for:	
Capital Projects	186,956
Federal & State Grants	764,985
Permanent Funds	
Expendable	717,771
Nonexpendable	35,847
Other Purposes	1,233,362
Unrestricted	(3,695,402)
Total Net Position	<u><u>\$ 30,748,638</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	Program Revenues				Net (Expenses) Revenues and and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	<u>Primary Governmental Activities</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 1,390,653	\$ 165,885	\$ 126,999	\$ -	\$ (1,097,769)
Public Safety	3,086,982	867,401	93,589	-	(2,125,992)
Public Works	2,392,055	47,067	98,969	484,989	(1,761,030)
Education	19,746,407	775,210	12,071,928	-	(6,899,269)
Health and Human Services	341,950	53,776	97,238	-	(190,936)
Culture and Recreation	229,884	12,349	244,825	-	27,290
Employee and Pension Benefits	7,993,547	-	3,701,976	-	(4,291,571)
State Assessments	446,625	-	-	-	(446,625)
Interest	237,520	-	23,439	-	(214,081)
Total Governmental Activities	35,865,623	1,921,688	16,458,963	484,989	(16,999,983)
Total Primary Government	\$ 35,865,623	\$ 1,921,688	\$ 16,458,963	\$ 484,989	(16,999,983)
General Revenues:					
Property Taxes					12,846,149
Motor vehicle excise and other taxes					1,312,353
Penalties & Interest on Taxes					187,040
Grants & Contributions not restricted to specific programs					1,578,516
Unrestricted Investment Income					27,848
Miscellaneous					5,666
Total General Revenues					15,957,572
Change in Net Position					(1,042,411)
Net Position:					
Beginning of year (as restated)					31,791,049
End of year					\$ 30,748,638

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF LEICESTER, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and Cash Equivalents	\$ 4,981,708	\$ 3,252,189	\$ 8,233,897
Investments	205,673		205,673
Receivables, net of allowance for uncollectibles:			
Property Taxes	195,861	-	195,861
Tax Liens	369,773	-	369,773
Excise and Other Taxes	120,937	-	120,937
Departmental	-	262,554	262,554
Due from Other Governments	81,576	469,233	550,809
Tax Foreclosures	123,886	-	123,886
Total Assets	\$ 6,079,414	\$ 3,983,976	\$ 10,063,390
Liabilities:			
Warrants Payable	\$ 650,476	\$ 313,859	\$ 964,335
Accrued Payroll	1,073,200	7,558	1,080,758
Payroll Withholdings	221,626	-	221,626
Tax Refund Payable	6,000	-	6,000
Other	21,781	-	21,781
Notes Payable	-	138,400	138,400
Total Liabilities	1,973,083	459,817	2,432,900
Deferred Inflows of Resources:			
Unavailable Revenue	816,033	411,984	1,228,017
Fund Balance:			
Nonspendable	-	35,847	35,847
Restricted	2,017	2,754,670	2,756,687
Committed	-	395,824	395,824
Assigned	927,846	-	927,846
Unassigned	2,360,435	(74,166)	2,286,269
Total Fund Balance	3,290,298	3,112,175	6,402,473
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,079,414	\$ 3,983,976	\$ 10,063,390

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$ 12,825,938	\$ -	\$ 12,825,938
Intergovernmental	12,062,343	2,975,478	15,037,821
Excise and Other Taxes	1,372,845	-	1,372,845
Licenses, Permits and Fees	591,797	-	591,797
Charges for Services	-	1,602,889	1,602,889
Interest and Penalties on Taxes	187,040	-	187,040
Investment Income	27,848	12,078	39,926
Gifts and Donations	-	74,331	74,331
Other	-	126,778	126,778
Intergovernmental - "On-behalf" Payments	3,531,914	-	3,531,914
Total Revenues	30,599,725	4,791,554	35,391,279
Expenditures:			
Current:			
General Government	1,295,867	106,981	1,402,848
Public Safety	2,914,615	506,684	3,421,299
Public Works	966,128	484,978	1,451,106
Education	15,746,434	3,290,019	19,036,453
Health and Human Services	266,772	36,906	303,678
Culture and Recreation	173,038	40,542	213,580
Employee and Pension Benefits	6,981,574	1,164	6,982,738
State Assessments	446,625	-	446,625
Debt Service:			
Principal	1,463,612	-	1,463,612
Interest	265,477	-	265,477
Total Expenditures	30,520,142	4,467,274	34,987,416
Excess of Revenues Over (Under) Expenditures	79,583	324,280	403,863
Other Financing Sources (Uses):			
Operating Transfers In	538,479	3,500	541,979
Operating Transfers Out	(3,500)	(538,479)	(541,979)
Capital Lease	344,500	-	344,500
Total Other Financing Sources (Uses)	879,479	(534,979)	344,500
Net Change in Fund Balances	959,062	(210,699)	748,363
Fund Balances, Beginning of Year (as restated)	2,331,236	3,322,874	5,654,110
Fund Balances, End of Year	\$ 3,290,298	\$ 3,112,175	\$ 6,402,473

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position
For the Year Ended June 30, 2014

Total Governmental Fund Balances		\$ 6,402,473
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.		36,839,492
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		1,228,017
Long Term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:		
Bonds and Leases Payable	\$ (5,372,390)	
Other Post Employment Benefits Payable	(7,795,216)	
Compensated Absences	<u>(499,552)</u>	(13,667,158)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in the governmental funds, interest is not reported until due.		<u>(54,186)</u>
Net Position of Governmental Activities		<u><u>\$ 30,748,638</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$	748,363
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and are reported as depreciation expense:		
Capital Outlay Purchases	\$ 905,209	
Depreciation	<u>(2,326,313)</u>	(1,421,104)
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 unavailable revenue.		
		(568,067)
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 and Lease Principal	1,541,301	
Capital Lease Financing	<u>(344,500)</u>	1,196,801
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Net Change in Compensated Absences	(15,552)	
Net Change in Other Post Employment Benefits	(1,010,809)	
Net Change in Accrued Interest on Long-Term Debt	<u>27,957</u>	(998,404)
Change in Net Position of Governmental Activities	\$	<u>(1,042,411)</u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
(NON-GAAP) - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts					
	Amounts Carried Forward from Prior Year	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
Revenues:						
Property Taxes	\$ -	\$ 13,116,254	\$ 12,649,943	\$ 12,736,997	\$ -	\$ 87,054
Intergovernmental	-	11,789,490	11,789,490	12,062,343	-	272,853
Excise and Other Taxes	-	1,108,000	1,108,000	1,372,845	-	264,845
Licenses, Permits, Fees	-	266,790	266,790	591,797	-	325,007
Interest and Penalties on Taxes	-	142,500	142,500	187,040	-	44,540
Investment income	-	21,500	21,500	27,425	-	5,925
Total Revenues	-	26,444,534	25,978,223	26,978,447	-	1,000,224
Expenditures:						
Current:						
General Government	107,906	1,318,409	1,494,441	1,295,867	143,275	55,299
Public Safety	35,864	2,546,279	2,732,443	2,570,115	31,017	131,311
Public Works	41,388	903,835	1,056,078	966,128	48,198	41,752
Education	20,132	15,846,852	15,803,905	15,746,434	56,378	1,093
Health and Human Services	20,624	262,342	298,440	266,772	20,765	10,903
Culture and Recreation	16,350	170,011	180,667	173,038	5,333	2,296
Employee and Pension Benefits	17,875	3,625,790	3,534,042	3,449,660	-	84,382
State Assessments	-	483,107	483,107	446,625	-	36,482
Debt Service:						
Principal	-	1,463,612	1,463,612	1,463,612	-	-
Interest	-	271,478	265,478	265,477	-	1
Total Expenditures	260,139	26,891,715	27,312,213	26,643,728	304,966	363,519
Excess of Revenues Over (Under) Expenditures	(260,139)	(447,181)	(1,333,990)	334,719	(304,966)	1,363,743
Other Financing Sources (Uses):						
Operating Transfers In	-	250,125	484,153	563,479	-	79,326
Operating Transfers Out	-	(3,500)	(3,500)	(3,500)	-	-
Total Other Financing Sources (Uses)	-	246,625	480,653	559,979	-	79,326
Net Change in Budgetary Fund Balance	(260,139)	(200,556)	(853,337)	\$ 894,698	\$ (304,966)	\$ 1,443,069
Other Budgetary Items:						
Free Cash and Other Reserves	-	200,889	593,531			
Prior year deficits	-	(333)	(333)			
Prior Year Encumbrances	260,139	-	260,139			
Total Other Budgetary Items	260,139	200,556	853,337			
NET BUDGET	\$ -	\$ -	\$ -			

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2014

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 26,978,447	\$ 26,643,728
<u>Adjustments:</u>		
Activity for Stabilization Funds Recorded in the General Fund for GAAP Purposes	423	-
Net Increase in Revenue from recording Refund Taxes Payable	107,022	-
Recognition of Intergovernmental Revenue - "on behalf payments"	3,531,914	-
Recognition of Expenditures - "on behalf payments"	-	3,531,914
Capital Lease	-	344,500
Net Decrease in Revenue from Recording 60-Day Receipts	(18,081)	-
Reported on a GAAP Basis	\$ 30,599,725	\$ 30,520,142

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014**

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 4,956	\$ 390,579
District Tax Receivables	-	174,745
Total Assets	4,956	565,324
LIABILITIES		
Warrants Payable	-	47,212
Due to Others	-	912
Due to Districts	-	215,403
Due to Student Groups	-	101,591
Escrows and Deposits	-	200,206
Total Liabilities	-	565,324
NET POSITION		
Held in Trust for Other Purposes	\$ 4,956	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF LEICESTER, MASSACHUSETTS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Private Purpose Trust Funds
Additions:	
Investment Income	\$ -
Total Additions	-
Deductions:	
Educational Scholarships	500
Total Deductions	500
Change in Net Position	(500)
Net Position at Beginning of Year	5,456
Net Position at End of Year	\$ 4,956

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Leicester, Massachusetts (the Town) 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 Town accounting policies are described herein.

A. Reporting Entity

The Town was incorporated in 1722 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five 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 2014, it was determined that no entities met the required GASB-39 and GASB-61 criteria of component units.

The Town is responsible for electing the governing board of the Leicester Housing Authority. The Town is also responsible for the collection of taxes of the Oxford/Rochdale Sewer District, Cherry Valley/Rochdale Water District, Cherry Valley Sewer District, Leicester Water Supply District, Hillcrest Water District, Hillcrest Sewer District, Stiles Water District, and Cedar Meadow Lake Watershed District which are autonomous entities in the Town. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board or handling the tax collections of the districts. Audited financial statements are available from the respective organizations. Descriptions of the related organizations are as follows:

Leicester Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The Town has no significant influence over management, budget or policies of the authority.

Oxford/Rochdale Sewer District, Cherry Valley/Rochdale Water District, Cherry Valley Sewer District, Hillcrest Water District, Hillcrest Sewer District, Leicester Water Supply District, Burncoat Pond Watershed District, Stiles Water District and Cedar Meadow Lake Watershed District - Water and sewer districts that provide utility services to the residents of the Town. The districts are autonomous and self-sufficient units under the General Laws of Massachusetts. The Town has no significant influence over management, budget or policies of the districts.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (e.g., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements

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

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustment necessary to reconcile ending net position and the change in net position.

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 funds 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.

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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.

The Town reports the following major governmental funds:

The *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.

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is 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.

Additionally, the Town reports the following fund types:

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government programs. The Town reports the following fiduciary funds:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. 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. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

Excluding the permanent funds, 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).

E. Investments

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.

All investments are carried at fair value.

F. Receivables

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Property Taxes and Tax Liens

Property taxes are based on assessments as of January 1, 2013 and include betterments, special assessments and liens. 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% of fair cash value. Taxes are due and payable on July 1st. The Town has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 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, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty 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 14% 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 May 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.

The Town mailed preliminary tax bills for fiscal year 2014 on June 28, 2013 that were due on August 1, 2013 and November 1, 2013 and the actual tax bills were mailed on December 31, 2013 were due on February 3, 2014 and May 1, 2014, respectively.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town. The legal levy limit under Proposition 2 1/2 for fiscal year 2014 is as follows:

Legal Levy Limit Under Proposition	
2 1/2 for fiscal year 2014	\$ 12,024,225
Add: Debt Exclusion	816,344
	<u>\$ 12,840,569</u>

The total amount raised by taxation was \$12,835,936.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel 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 Board of Assessors of the Town is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Departmental

Departmental receivables consist primarily of ambulance, police off-duty details and Title V septic repair loans. Upon issuance of Title V septic repair loans that were given by the Town to individuals and businesses, a receivable is recorded for the principal amount of the loan.

The allowance for uncollectibles relates to ambulance and police off-duty details are based upon historical trends. The other departmental receivable is considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

Due from Other Governments

Various federal and state grants for operating and capital purposes 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 and, therefore, do not report an allowance for uncollectibles.

G. Capital Assets

Capital assets of the primary government include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or at estimated

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and improvements	5-50
Machinery, equipment and other	3-10
Infrastructure	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

H. 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.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities.

In the 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.

I. Deferred Inflows of Resources

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting that qualifies in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for the Town's property, excise and other taxes, departmental revenue and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

J. Net Position and Fund Balances

In the Governmental-Wide financial statements, the difference between the Town's total assets and total liabilities represents net position. Net position displays three components – net investment in capital assets; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Net position has been “restricted for” the following:

“Capital projects” represents amounts restricted for capital purposes.

“Federal and state grants” represents amounts restricted by the federal and state government for various programs.

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

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

“Other purposes” represents restrictions placed on assets from outside parties.

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 nonspendable 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.

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 nonspendable 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.

K. Long-term Debt

Long-term debt of the primary government is reported as liabilities in the government-wide statement of net position.

The face amount of governmental funds long-term debt is reported as other financing sources.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

L. Compensated Absences

The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Individuals that have been employed by the Town for twenty years and retire from the Town are provided for 20 days of sick time based upon their current salaries. The school department grants employees sick leave in varying amounts based upon various individual union and employee contracts.

M. Post Retirement Benefits

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 50% to 75% share of insurance premiums in the general fund in the fiscal year paid.

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

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for the acceptance of grants, capital projects, and borrowing authorizations, annual budgets are not prepared for any other fund; therefore, comparison of budget to actual is only presented for the General Fund.

The Town must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non-property tax revenues estimated to be received, including available funds.

The Town follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

- Estimates are submitted by departments in accordance with Massachusetts general Laws.
- The budget is legally enacted by vote at the annual Town meeting.
- Supplemental appropriations may be made from available funds after setting of the tax rate with Town meeting approval.
- Throughout the year appropriations may be transferred between departments with Town meeting approval.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Massachusetts law requires cities and towns to provide a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

For fiscal year 2014, the Town incurred a final budget deficit of \$853,337 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unassigned fund balance:	
Free cash votes	\$ 593,531
Prior year's deficits	(333)
Prior year's encumbrances	260,139
	<hr/>
	\$ 853,337

B. Deficit Fund Balances

The following fund had a deficit at June 30, 2014 as measured by the balance of unreserved fund balance.

- The *Radio communications upgrade fund*, a capital project fund for radios in the police, fire and highway departments, has a deficit of \$74,166. The Town has an outstanding bond anticipation note for \$138,400. The deficit will be eliminated upon the issuance of permanent debt.

(3) DETAILED NOTES

A. Deposits, Investments and Cash and Investments in Custody of Trustees

Custodial Credit Risks – Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town has a deposit policy for custodial credit risk summarized by the following key guidelines.

- Diversity by institution: no more than 50% of the total cash balance will be invested in a single bank at any one time.
- Participation in any bank not to exceed 10% of the bank's capital and surplus position.
- Investments will routinely be considered in all legal investments: certificates of deposit, money market accounts, purchase agreements, treasury bills, savings and MMDT.
 - To maintain all collected cash balances in interest bearing accounts.
- Participation in MMDT may be 100% of available cash.
- Utilize U.S. Treasuries when rate favorable to MMDT.
- Trust funds may be co-mingled and invested in investments allowed by the legal list issued by the Banking Commissioner each July. Each trust fund must be accounted for separately.
- The stabilization fund shall not exceed ten per cent of the equalization valuation of the Town and any interest shall be added to and become part of the fund.

Deposits at June 30, 2014 were \$8,525,162. Of these, \$1,681,414 were exposed to custodial credit risk as uninsured and uncollateralized.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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.

As of June 30, 2014, the District had MMDT investments in the amount of \$205,673.

Interest Rate Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Town's \$205,673 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name. The Town has no policy on custodial credit risk.

Interest Rate Risk

The Town does 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 does not have any exposure to credit risk as of June 30, 2014.

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in one issuer. The Town does not have more than 5 percent of the Town's investments in one issuer.

Cash and Investments in Custody of Trustees

Cash and investments in custody of trustees are library funds that are in the custody and under the control of the library trustees.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

B. Receivables

At June 30, 2014, receivables for the individual major governmental funds, non-major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts of the primary government, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 197,905	\$ (2,044)	\$ 195,861
Tax liens	369,773	-	369,773
Excise taxes	190,521	(69,584)	120,937
Departmental	1,229,670	(967,116)	262,554
Due from other governments	550,809	-	550,809
Tax foreclosures	123,886	-	123,886
	<u>\$ 2,662,564</u>	<u>\$ (1,038,744)</u>	<u>\$ 1,623,820</u>

The composition of amounts due from other governments as of June 30, 2014 for governmental funds is as follows:

General Fund:

Commonwealth of Massachusetts:

Department of Veterans Services:

Veterans benefits \$ 81,576

Nonmajor Governmental Funds:

U. S. Department of Education:

School title grants \$ 42,906

U. S. Department of Homeland Security:

Byrne Judge Advocate General Grants 781

Commonwealth of Massachusetts:

Department of Early Education and Care 3,737

Department of Environmental Protection 7,510

Executive Office of Public Safety and Homeland Security 892

Massachusetts Department of Transportation:

Highway Department - Chapter 90 funds 401,708

Massachusetts Emergency Management Agency 2,770

Others 8,929 469,233

\$ 550,809

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

C. Deferred Inflows of Resources – Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

General Fund:			
Property taxes	\$	119,861	
Tax liens		369,773	
Excise taxes		120,937	
Due from other governments		81,576	
Tax foreclosures		123,886	\$ 816,033
Nonmajor Governmental Funds:			
Departmental	\$	215,487	
Due from other governments		196,497	411,984
			<u>\$ 1,228,017</u>

D. Capital Assets

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,870,740	\$ -	\$ -	\$ 4,870,740
Construction in progress	-	46,163	-	46,163
Total capital assets not being depreciated	4,870,740	46,163	-	4,916,903
Capital assets being depreciated:				
Buildings and Renovations	26,508,032	-	-	26,508,032
Machinery, equipment and other	4,178,160	627,431	-	4,805,591
Infrastructure	64,709,239	231,615	-	64,940,854
Total capital assets being depreciated	95,395,431	859,046	-	96,254,477
Less accumulated depreciation for:				
Buildings and Renovations	15,956,550	781,597	-	16,738,147
Machinery, equipment and other	3,318,427	241,190	-	3,559,617
Infrastructure	42,730,598	1,303,526	-	44,034,124
Total accumulated depreciation	62,005,575	2,326,313	-	64,331,888
Total capital assets being depreciated, net	33,389,856	(1,467,267)	-	31,922,589
Total governmental activities capital assets, net	\$ 38,260,596	\$ (1,421,104)	\$ -	\$ 36,839,492

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Depreciation expense was charged to functions/programs of the governmental type activities as follows:

Governmental Activities:

General government	\$ 14,037
Public safety	229,037
Public works	1,354,663
Education	675,460
Health and human services	41,298
Culture and recreation	11,818
Total depreciation expense - governmental activities	<u>\$ 2,326,313</u>

E. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2014, are summarized below:

Transfers Out:	Transfers In:		Total
	General fund	Nonmajor Governmental fund	
General fund	\$ -	\$ 3,500	\$ 3,500
Nonmajor governmental funds	538,479	-	538,479
Total transfers out	<u>\$ 538,479</u>	<u>\$ 3,500</u>	<u>\$ 541,979</u>

F. Leases

The Town has entered into lease agreements as lessee for financing of a school mower and a fire department vehicle. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets, including any expiring in 2014, acquired through the capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Machinery, Equipment and Other	\$ 411,399
Less: Accumulated Depreciation	(37,730)
Total	<u>\$ 373,669</u>

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 are as follows:

Year Ending June 30,	Governmental Activities
2015	\$ 78,262
2016	72,399
2017	72,399
2018	72,399
Total minimum lease payments	295,459
Less: amount representing interest	(17,789)
Present value of minimum lease payments	<u>\$ 277,670</u>

G. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type activities are as follows:

Purpose	Interest Rate	Final Maturity Date	Balance July 1, 2013	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2014
Governmental Activities						
Bond Anticipation Note:						
Radio communications upgrade	0.60%	5/13/2015	\$ -	\$ 138,400	\$ -	\$ 138,400

H. Long Term Debt

General Obligation Bonds

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 activities.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

General obligation bonds currently outstanding of the governmental type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2014
Inside Debt:					
Municipal Purpose Loan of 2005:					
Police Station	4.35%	4/1/2005	3/15/2024	\$ 3,325,000	\$ 1,725,000
Land Acquisition (Police)	3.99%	4/1/2005	3/15/2024	351,000	140,000
Land Acquisition (Hillcrest Country Club)	4.13%	4/1/2005	3/15/2024	3,010,000	1,570,000
School Renovation	3.67%	4/1/2005	3/15/2024	205,000	20,000
Municipal Purpose Loan of 2010:					
Remodel Roofs	4.20%	8/13/2010	8/1/2020	388,679	265,000
U.S. Department of Agriculture:					
School project	3.38%	6/27/2012	6/27/2042	160,500	154,042
School project	3.38%	6/27/2012	6/27/2042	254,500	244,261
Total Inside Debt					<u>4,118,303</u>
Outside Debt:					
Municipal Purpose Loan of 2003:					
Water mains	3.74%	11/15/2003	11/15/2020	1,600,000	700,000
Municipal Purpose Loan of 2005:					
Water mains	4.13%	4/1/2005	3/15/2024	200,000	100,000
Massachusetts Water Pollution Abatement Trust:					
Title V Septic Repair Program	Various	8/1/2001	8/1/2019	191,022	59,899
Title V Septic Repair Program	Various	8/1/2004	8/1/2022	64,592	30,578
Title V Septic Repair Program	0.00%	12/14/2006	7/15/2026	132,217	85,940
Total Outside Debt					<u>976,417</u>
Total governmental type debt					<u><u>\$ 5,094,720</u></u>

Future Debt Service

The annual principal and interest payments to retire all governmental type fund general obligation long-term debt outstanding as of June 30, 2014 are as follows:

Year	Principal	Interest	Total
2015	\$ 553,898	\$ 203,525	\$ 757,423
2016	534,013	181,685	715,698
2017	534,320	160,482	694,802
2018	534,636	138,962	673,598
2019	524,963	117,109	642,072
2020-2024	2,097,087	288,827	2,385,914
2025-2027	85,233	45,677	130,910
	77,209	33,870	111,079
	91,149	19,931	111,080
	62,212	4,239	66,451
	<u>\$ 5,094,720</u>	<u>\$ 1,194,307</u>	<u>\$ 6,289,027</u>

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

A summary of the changes in governmental activities liabilities during the year is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 6,361,790	\$ -	\$ 1,443,487	\$ 4,918,303	\$ 533,773
Massachusetts Water Pollution Abatement Trust bonds	196,542	-	20,125	176,417	20,125
Capital lease	10,859	344,500	77,689	277,670	71,057
Compensated absences	484,000	54,378	38,826	499,552	95,255
OPEB liability obligation	6,784,407	1,010,809	-	7,795,216	-
Governmental activity Long-term liabilities	<u>\$ 13,837,598</u>	<u>\$ 1,409,687</u>	<u>\$ 1,580,127</u>	<u>\$ 13,667,158</u>	<u>\$ 720,210</u>

Massachusetts Water Pollution Abatement Trust (MWPAT)

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$387,831 and interest costs of \$122,572 for three loans which the Town has borrowed from MWPAT. The gross amount outstanding at June 30, 2014 for principal and interest combined for the loan is \$193,409. The Town is scheduled to be subsidized for interest in the amount of \$16,992. The net repayments, including interest, are scheduled to be \$176,417. Since the Town is legally obligated for the total amount of the debt, such amounts for the gross principal have been recorded on the financial statements. The fiscal year 2014 interest subsidies totaled \$5,249.

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 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, 2014 totaled \$4,118,303.

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."

Equalized Valuation-Real Estate and Personal Property (2014)		<u>\$ 900,217,100</u>
Debt Limit: 5 % of Equalized value		45,010,855
Total Debt Outstanding	\$ 5,094,720	
Less: Debt Outside Debt Limit	(976,417)	<u>4,118,303</u>
Inside Debt Excess Borrowing Capacity at June 30, 2014		<u>\$ 40,892,552</u>

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt. Loan authorizations that have not been issued as of June 30, 2014 and are not reflected in the Town's financial statements are as follows:

Date Town Meeting Authorized	Purpose	Amount
8/3/1999	Repairs, Replacement and/or Upgrade Septic Systems	\$ 303,191
1/27/2004	Land acquisition, Pleasant Street (Hillcrest Country Club)	100,000
5/1/2012	Town Hall renovations	100,000
		<u>\$ 503,191</u>

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

I. Fund Balances

The following is a summary of the Town's Governmental fund balances at the year ended June 30, 2014:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Permanent funds	\$ -	\$ 35,847	\$ 35,847
Restricted:			
Federal, state and local grants	-	568,488	568,488
School revolving funds	-	746,328	746,328
Town revolving funds	-	189,585	189,585
Donations and gifts	-	100,014	100,014
Capital projects	-	122,722	122,722
Permanent funds	-	717,771	717,771
Reserve for debt	2,017	-	2,017
Other	-	309,762	309,762
	<u>2,017</u>	<u>2,754,670</u>	<u>2,756,687</u>
Committed:			
Ambulance reserve	-	313,856	313,856
Health insurance fund	-	9,548	9,548
Open space fund	-	1,251	1,251
Town dog fund	-	71,169	71,169
	<u>-</u>	<u>395,824</u>	<u>395,824</u>
Assigned:			
General government	143,275	-	143,275
Public safety	31,017	-	31,017
Public works	48,198	-	48,198
Education	56,378	-	56,378
Health and human services	20,765	-	20,765
Culture and recreation	5,333	-	5,333
Subsequent year's budget	622,880	-	622,880
	<u>927,846</u>	<u>-</u>	<u>927,846</u>
Unassigned:			
General Fund	2,360,435	-	2,360,435
Capital project deficit:			
Radio Communications Upgrade	-	(74,166)	(74,166)
	<u>2,360,435</u>	<u>(74,166)</u>	<u>2,286,269</u>
Total Governmental fund balances	<u>\$ 3,290,298</u>	<u>\$ 3,112,175</u>	<u>\$ 6,402,473</u>

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

J. 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 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 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, 2014 the balances in the stabilization funds are reported in the General Fund as unassigned fund balance consisting of the following:

General purpose stabilization fund	\$	205,673
Capital stabilization fund		7,234
Hillcrest capital stabilization fund		25,009
	\$	<u>237,916</u>

(4) OTHER INFORMATION

A. 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 participates in a premium-based health care plan for its active employees. In addition, 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.

B. Contingent Liabilities

Litigation

Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

C. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The Town adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009, 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.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

Plan Description

In addition to providing pension benefits, the Town provided post-employment health care and life insurance benefits for retired employees, their dependents and beneficiaries. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. There are approximately 544 active and retired employees that meet the eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

The contribution requirements of plan members and the Town are established pursuant to applicable collective bargaining and employment contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2014 fiscal year, the Town provided required contributions of \$693,264 towards the annual OPEB cost, comprised of benefit payments made on behalf of retirees (net of reinsurance), administrative expenses and reinsurance payments, and net of retiree contributions.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other post employment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. 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:

Annual required contribution	\$ 1,728,294
Interest on net OPEB obligation	271,376
Adjustment to annual required contribution	<u>(295,597)</u>
Annual OPEB cost (expense)	1,704,073
Contributions made during the fiscal year	<u>(693,264)</u>
Increase in net OPEB obligation	1,010,809
Net OPEB Obligation - beginning of year	<u>6,784,407</u>
Net OPEB Obligation - end of year	<u><u>\$ 7,795,216</u></u>

The Town's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2014 fiscal year and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 1,704,073	40.7%	\$ 7,795,216
6/30/2013	\$ 2,202,683	35.7%	\$ 6,784,407
6/30/2012	\$ 2,067,932	35.1%	\$ 5,368,577

Funded Status and Funding Process

As of January 1, 2013, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$21,462,181, and the actuarial value of assets was \$0.0 million, resulting in an unfunded

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

actuarial accrued liability (UAAL) of \$21,462,181. The covered payroll (annual payroll of active employees covered by the plan) was \$14,866,000, and the ratio of the UAAL to the covered payroll was 144.4%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded 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.

The Schedule of Funding Progress, presented as Required Supplementary Information following the Notes to the 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.

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 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.

The Town OPEB actuarial valuation as of January 1, 2013, used a projected unit credit actuarial cost method. The OPEB liability is currently funded and the actuarial assumptions include a 4.0% rate of return on invested assets, a 4.0% discount rate and average salary increase of 3.25%. The Commercial managed care trends begin at 9% and scale down to 5.0% per year, for Medicare, the managed care trends begin at 8% and scale down to 5.0% per year, while Indemnity trends begin at 9% and scale down to 6% per year.

The unfunded actuarial accrued liability is being amortized over a closed 26 year amortization (remainder of the initial 30 years amortization) on a level percentage of payroll.

D. Pension Plan

Plan Description

The Town, as a member of the Worcester Regional Retirement System (the System), participates in a cost-sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. Each participating employers' share of the total annual contribution is determined on the basis of active payroll. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of Commonwealth of Massachusetts Teachers' Retirement System to which the Town does not contribute. Pension benefits and administrative expenses are paid by the Teachers' Retirement Board and are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$3,531,914 for the fiscal year ending June 30, 2014, and, accordingly, are reported in the General Fund as intergovernmental revenues and employee benefit expenditures.

The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987 and any increases 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. Cost-of-living adjustments granted after 1987 must be approved by the Worcester Regional 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's PERAC. That report may be obtained by contacting the System located at 23 Midstate Drive, Suite 106, Auburn, Massachusetts.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

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 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's contribution to the System for the fiscal years ended June 30, 2014, 2013, and 2012 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	Town's Contribution
2014	\$ 871,707
2013	\$ 761,089
2012	\$ 725,685

The last actuarial valuation was prepared by KMS Actuaries, L.L.C. as of January 1, 2012. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8% compounded annually, (b) projected salary, including longevity, increases of 3% per year per member.

The total unfunded actuarial liability applicable to the entire System's employees at January 1, 2012 is as follows:

Actuarial Accrued Liability	\$ 982,796,782
Less: Assets	436,671,982
Unfunded Actuarial Liability	<u>\$ 546,124,800</u>

The Town's portion of such liability is approximately 2.32% or \$12,670,095.

The system's funding policy is governed by Section 22D (6) of Chapter 32 and Chapter 697 of the Acts of 1987 of the Massachusetts General Laws. Under these sections the system is a "funding system" and has established a state-approved funding schedule to eliminate its unfunded liability. The members of the system are required to fund each year the actuarially determined normal cost plus an amount to amortize the unfunded liability by June 30, 2029.

Reporting Policies

The funds of the Worcester Regional Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

E. Implementation Of New GASB Pronouncements

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

During fiscal year 2014, the GASB implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement introduced the concept of deferred outflows and deferred inflows to the financial statements. As such, certain items that were previously reported as assets and liabilities were reclassified to deferred outflows and deferred inflows.

TOWN OF LEICESTER, MASSACHUSETTS
Notes to the Financial Statements
Year Ended June 30, 2014

F. Future GASB Pronouncements

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as an asset/(liability) and revenue/(expense), the Town's portion of the Worcester Regional Contributory Retirement System actuarial accrued liability.

G. RESTATEMENT

The beginning net position balance and beginning Nonmajor Governmental fund balance have been restated as follows:

	Governmental Activities Net Position June 30, 2013	Nonmajor Governmental Fund Balance June 30, 2013
Net position and Nonmajor Governmental Fund Balance, June 30, 2013	\$ 32,158,364	\$ 3,690,189
Adjustments:		
Reclassify to Private Purpose Trust Funds:		
Scholarship funds	(5,456)	(5,456)
Reclassify to Agency Funds:		
Escrow/subdivision funds	(19,658)	(19,658)
Police Off-duty fund	(6,369)	(6,369)
Student Activity funds	(93,118)	(93,118)
Town Surety funds	(242,714)	(242,714)
As restated June 30, 2013	<u>\$ 31,791,049</u>	<u>\$ 3,322,874</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF LEICESTER, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Other Post-Employment Benefit Plan
Year Ended June 30, 2014

Schedule of Funding Progress

Other Post Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2013	\$ -	\$ 21,462,181	\$ 21,462,181	0.0%	\$ 14,866,000	144.4%
7/1/2011	\$ -	\$ 23,145,297	\$ 23,145,297	0.0%	\$ 15,247,000	151.8%
7/1/2009	\$ -	\$ 21,840,178	\$ 21,840,178	0.0%	\$ 14,354,000	152.2%

Schedule of Contribution Funding

Other Post Employment Benefits			
Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions Made	Percentage Contributed
2014	\$ 1,704,073	\$ 693,264	40.7%
2013	\$ 2,206,831	\$ 786,852	35.7%
2012	\$ 2,067,932	\$ 724,969	35.1%

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, 2013
Actuarial cost method	Projected Unit Credit Actuarial Cost method
Amortization method	26-year level assuming a 3.25% annual increase, closed

Actuarial Assumptions:

Discount rate	4.0% annually
Interest rate	4.0% per year
Projected salary increases	3.25% applied for amortization purposes.
Medical/drug cost trend rate	The Commercial managed care trends begin at 9% and scale down to 5.0% per year, for Medicare, the managed care trends begin at 8% and scale down to 5.0% per year, while Indemnity trends begin at 9% and scale down to 6% per year.

Plan Membership:

Current active members	292
Current retirees, beneficiaries and dependents	252
Total	544

TOWN OF LEICESTER, MASSACHUSETTS
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Worcester Regional Contributory Retirement System
For the Year Ended June 30, 2014

Schedule of Funding Progress

Pension System						
Worcester Regional Contributory Retirement System						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ 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%

Schedule of Funding Progress

Pension System						
Worcester Regional Contributory Retirement System				Town		
Fiscal Year Ended	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Percentage of System-Wide Actual Contributions (B/A)	
6/30/2014	\$ 37,510,266	\$ 37,510,266	100.00%	\$ 871,707	2.32%	
6/30/2013	\$ 35,056,320	\$ 35,056,320	100.00%	\$ 761,089	2.17%	
6/30/2012	\$ 33,072,000	\$ 33,072,000	100.00%	\$ 725,685	2.19%	

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
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 80% or more than 120% of market value.

Actuarial Assumptions:

Investment rate of return	8.00%
Projected salary increase	3.00%
Cost of living adjustments	3.00% of the pension amount, capped at \$420 per year.

Plan Membership:

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

SUPPLEMENTARY SCHEDULES

TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Special Revenue:					
<i>Federal and State Grants:</i>					
School Grants	\$ 4,416	\$ 740,693	\$ 736,923	\$ -	\$ 8,186
Board of Health Grants	12,660	-	-	-	12,660
Council on Aging Grants	5,000	24,948	24,946	-	5,002
Emergency Management Grant	-	35,056	-	(35,056)	-
Highway Grants	-	369,925	369,925	-	-
Library Grants	26,441	11,415	11,019	-	26,837
Other Grants and Programs	4,273	62,413	66,686	-	-
Public Safety Grants	(12,339)	78,737	62,828	-	3,570
Schools:					
School Lunch Program	233	579,452	570,223	-	9,462
School Lunch Commodities	-	52,728	52,728	-	-
Revolving Accounts	353,088	464,863	577,501	-	240,450
School Choice	722,986	389,904	616,474	-	496,416
State Special Education Reimbursement Fund	321,536	746,654	721,048	-	347,142
Other:					
Ambulance Reserve	325,576	342,458	650	(353,528)	313,856
Becker College Grant	500	385	385	-	500
Conservation Commission Fees	31,162	2,795	-	(4,835)	29,122
Revolving Funds	176,472	120,375	107,261	-	189,586
Gifts and Donations	60,397	74,332	31,051	(3,664)	100,014
Insurance Reimbursements	17,729	97,020	31,410	(83,339)	-
Leicester Cable Funds	53,953	178,515	67,877	-	164,591
Outside Detail Revolving	(6,369)	321,417	325,128	-	(10,080)
RDTF Seizures Released	63,752	6,073	9,264	-	60,561
Sale of Cemetery Lots	7,560	1,700	-	-	9,260
Septic Repair Programs	206,452	9,011	-	(20,125)	195,338
Town Dog Fund	56,899	34,270	-	(20,000)	71,169
Waterway Improvement Fund	7,830	-	-	-	7,830
Arts Council Fund	8,712	12,180	8,314	-	12,578
Capital Expenditures Fund	3,429	-	-	-	3,429
Health Insurance Fund	7,213	-	1,164	3,500	9,549
Open Space Fund	1,251	-	-	-	1,251
Post War Rehabilitation Fund	1,798	-	75	-	1,723
Total Special Revenue	\$ 2,462,610	\$ 4,757,319	\$ 4,392,880	\$ (517,047)	\$ 2,310,002

TOWN OF LIECESTER, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Fund Balances July 1, 2013	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2014
Continued From Page 50	\$ 2,462,610	\$ 4,757,319	\$ 4,392,880	\$ (517,047)	\$ 2,310,002
Capital Projects:					
Police Station Construction	119,687	-	14,850	-	104,837
Town Hall Windows	8,646	-	-	-	8,646
Fire/EMS Needs Study	1,700	-	-	-	1,700
New Fire/EMS Facility Study	10,000	-	4,800	-	5,200
Middle Windows/Doors	2,339	-	-	-	2,339
Radio Communications Upgrade	(28,004)	-	46,162	-	(74,166)
Solar Project	17,932	-	-	(17,932)	-
Total Capital Projects	132,300	-	65,812	(17,932)	48,556
Perpetual Permanent Funds:					
Cherry Valley Cemetery Perpetual Care	18,819	-	-	-	18,819
Dorothy Warren Fund	17,028	-	-	-	17,028
Total Perpetual Permanent Funds	35,847	-	-	-	35,847
Permanent Funds:					
Cherry Valley Cemetery Perpetual Care	4,859	-	522	-	4,337
Dorothy Warren Fund	93	-	-	-	93
Newhall Fund	19,015	-	-	-	19,015
I. H. Thomas Fund	1,503	-	-	-	1,503
Southgate Fund	30,348	-	-	-	30,348
In Custody of Library Trustees:					
Library Funds	636,299	34,235	8,060	-	662,474
Total Permanent Funds	692,117	34,235	8,582	-	717,770
Total Non-Major Governmental Funds	\$ 3,322,874	\$ 4,791,554	\$ 4,467,274	\$ (534,979)	\$ 3,112,175

TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF REAL ESTATE AND PERSONAL PROPERTY TAXES
JULY 1, 2013 TO JUNE 30, 2014

	Uncollected Taxes July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2014	Uncollected Taxes Per Detail June 30, 2014
Real Estate Taxes:						
Levy of 2014	\$ -	\$ 12,532,841	\$ 232,847	\$ 12,139,767	\$ 160,227	\$ 160,227
Levy of 2013	172,877	-	28,406	136,471	8,000	8,000
Levy of 2012	11,931	-	8	6,516	5,407	5,407
Levy of 2011	5,142	-	4	794	4,344	4,325
Levy of 2010	4,091	-	-	(1)	4,092	1,936
Prior Years	8,915	-	-	-	8,915	1,329
	<u>202,956</u>	<u>12,532,841</u>	<u>261,265</u>	<u>12,283,547</u>	<u>190,985</u>	<u>181,224</u>
Personal Property Taxes:						
Levy of 2014	-	316,587	126	314,630	1,831	1,831
Levy of 2013	1,859	-	3,166	(2,592)	1,285	1,285
Levy of 2012	1,832	-	23	560	1,249	1,249
Levy of 2011	954	-	-	20	934	934
Levy of 2010	805	-	-	228	577	577
Prior Years	1,116	-	-	72	1,044	1,049
	<u>6,566</u>	<u>316,587</u>	<u>3,315</u>	<u>312,918</u>	<u>6,920</u>	<u>6,925</u>
Total Real Estate and Personal Property Taxes	<u>\$ 209,522</u>	<u>\$ 12,849,428</u>	<u>\$ 264,580</u>	<u>\$ 12,596,465</u>	<u>\$ 197,905</u>	<u>\$ 188,149</u>

**TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF MOTOR VEHICLE AND BOAT EXCISE TAXES
JULY 1, 2013 TO JUNE 30, 2014**

	Uncollected Taxes July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2014	Uncollected Taxes Per Detail June 30, 2014
Motor Vehicle Excise Taxes:						
Levy of 2014	\$ -	\$ 1,141,451	\$ 26,677	\$ 1,026,079	\$ 88,695	\$ 88,696
Levy of 2013	123,389	110,063	11,024	193,336	29,092	29,092
Levy of 2012	21,673	421	1,642	11,701	8,751	8,751
Levy of 2011	10,281	-	324	4,229	5,728	5,728
Levy of 2010	8,229	-	-	2,880	5,349	5,357
Prior Years	55,266	-	-	3,582	51,684	52,056
	<u>218,838</u>	<u>1,251,935</u>	<u>39,667</u>	<u>1,241,807</u>	<u>189,299</u>	<u>189,680</u>
Boat Excise Taxes:						
Levy of 2013	930	-	53	639	238	238
Levy of 2012	240	-	-	-	240	240
Levy of 2011	333	-	-	-	333	333
Levy of 2010	411	-	-	-	411	411
Prior Years	1,677	-	1,717	(40)	-	-
	<u>3,591</u>	<u>-</u>	<u>1,770</u>	<u>599</u>	<u>1,222</u>	<u>1,222</u>
Total Motor Vehicle and Boat Excise Taxes	<u>\$ 222,429</u>	<u>\$ 1,251,935</u>	<u>\$ 41,437</u>	<u>\$ 1,242,406</u>	<u>\$ 190,521</u>	<u>\$ 190,902</u>

**TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF TAX LIENS
JULY 1, 2013 TO JUNE 30, 2014**

	Uncollected Accounts July 1, 2013	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2014	Uncollected Accounts Per Detail June 30, 2014
Tax Liens	<u>\$ 342,619</u>	<u>\$ 163,469</u>	<u>\$ 14,101</u>	<u>\$ 122,214</u>	<u>\$ 369,773</u>	<u>\$ 373,576</u>

TOWN OF LEICESTER, MASSACHUSETTS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND INDEPENDENT AUDITORS' REPORTS REQUIRED
UNDER THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

FOR THE YEAR ENDED JUNE 30, 2014

TOWN OF LEICESTER, MASSACHUSETTS

**Independent Auditors' Reports Pursuant to
Governmental Auditing Standards and
The Single Audit Act Amendments of 1996**

For the Year Ended June 30, 2014

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**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 Leicester, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Leicester, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Leicester, Massachusetts' basic financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Leicester, Massachusetts' 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 Leicester, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Leicester, Massachusetts' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Leicester, Massachusetts' 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*.

Town of Leicester, Massachusetts' Response to Finding

The Town of Leicester, Massachusetts' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Leicester, Massachusetts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

April 22, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Board of Selectmen
Town of Leicester, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the Town of Leicester, Massachusetts' compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Leicester, Massachusetts' major federal programs for the year ended June 30, 2014. The Town of Leicester, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Leicester, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Leicester, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Leicester, Massachusetts' compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Leicester, Massachusetts, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Town of Leicester, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Leicester, Massachusetts'

internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Leicester, Massachusetts' internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Leicester, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Leicester, Massachusetts' basic financial statements. We issued our report thereon dated April 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts
April 22, 2015

**TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/ Program Title	State/ Pass-Through Identification Number	Federal CFDA Number	Federal Awards Expended
U. S. Department of Agriculture			
Passed Through Commonwealth of Massachusetts			
Department of Elementary and Secondary Education:			
Child Nutrition Cluster:			
School Breakfast Program	14-151	10.553	\$ 36,290
National School Lunch Program	14-151	10.555	225,481
Total Child Nutrition Cluster			<u>261,771</u>
Food Distribution - School Lunch Commodities	14-141	10.565	52,727
Total U. S. Department of Agriculture			<u>314,498</u>
U. S. Department of Justice			
Direct Programs:			
Byrne Memorial Justice Assistance Grant		16.738	8,087
Total U. S. Department of Justice			<u>8,087</u>
U. S. Department of Transportation			
Passed Through Commonwealth of Massachusetts			
Executive Office of Public Safety and Homeland Security:			
State and Community Highway Safety:			
Traffic Enforcement - 2013		20.600	2,307
Traffic Enforcement - 2014		20.600	2,258
Underage Alcohol Enforcement - 2014		20.600	1,400
Total State and Community Highway Safety			<u>5,965</u>
Passed Through Commonwealth of Massachusetts			
Emergency Management Agency:			
Hazardous Materials Emergency Planning - FFY 2012		20.703	1,135
Total U. S. Department of Transportation			<u>7,100</u>
U. S. Department of Homeland Security			
Passed Through Commonwealth of Massachusetts			
Emergency Management Agency:			
Disaster Grants - Public Assistance:			
February 2013 Blizzard	FEMA-4110-DR-MA	97.036	35,056
Emergency Management Performance Grants:			
Emergency Management Performance Grant - FFY 2011		97.042	3,450
Emergency Management Performance Grant - FFY 2012		97.042	2,770
Total Emergency Management Performance Grants			<u>6,220</u>
Total U. S. Department of Homeland Security			<u>41,276</u>
TOTAL PAGE 1 OF 2			<u>\$ 370,961</u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

**TOWN OF LEICESTER, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/ Program Title	State/ Pass-Through Identification Number	Federal CFDA Number	Federal Awards Expended
U. S. Department of Education			
Passed Through Commonwealth of Massachusetts			
Department of Elementary and Secondary Education:			
Title I Grants to Local Educational Agencies:			
Title I - 2013	305-000623-2013-0151	84.010	\$ 36,093
Title I - 2014	305-030703-2014-0151	84.010	111,123
Total Title I Grants to Local Educational Agencies			<u>147,216</u>
Special Education Cluster:			
Special Education PL 94-142 Allocation - 2013	240-016-3-0151-N	84.027	82,221
Special Education PL 94-142 Allocation - 2014	240-274-4-0151-O	84.027	351,134
Special Education Program Improvement - 2013	274-133-3-0151-N	84.027	10,611
Special Education Program Improvement - 2014	274-048-4-0151-O	84.027	6,615
Early Childhood SPED Program Improvement - 2013	298-190-3-0151-N	84.173	982
Total Special Education Cluster,			
Department of Elementary and Secondary Education			<u>451,563</u>
Improving Teacher Quality State Grants:			
Teacher Quality - 2013	140-002890-2013-0151	84.367	12,310
Teacher Quality - 2014	140-038462-2014-0151	84.367	43,255
Total Improving Teacher Quality State Grants			<u>55,565</u>
Passed Through Commonwealth of Massachusetts			
Department of Early Education and Care:			
Special Education Cluster:			
Special Education Early Childhood Allocation - 2013	EEC-262	84.173	48
Special Education Early Childhood Allocation - 2014	EEC-262	84.173	16,763
Total Special Education Cluster,			
Department of Early Education and Care			<u>16,811</u>
Total U. S. Department of Education			<u>671,155</u>
TOTAL PAGE 2 OF 2			671,155
TOTAL PAGE 1 OF 2			370,961
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 1,042,116</u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

TOWN OF LEICESTER, MASSACHUSETTS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Town of Leicester, Massachusetts, under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town of Leicester, Massachusetts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Leicester, Massachusetts.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting.
- (2) Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

TOWN OF LEICESTER, MASSACHUSETTS
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditor's Report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)? ☒ Yes ☐ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)? ☐ Yes ☒ None Reported

Type of Auditor's Report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	U. S. Department of Agriculture – Child Nutrition Cluster
84.027, 84.173	U. S. Department of Education – Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

A significant deficiency in internal control over financial reporting is reported as finding 2014-001 on page 11.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS

None

**TOWN OF LEICESTER, MASSACHUSETTS
SUMMARY SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Finding 2014-001: Cash and Investment Reconciliation (Significant Deficiency in Internal Control Over Financial Reporting)

Criteria:

The Treasurer's office and Accountant's office is responsible to complete timely reconciliations of activity and balances of the cash. We cannot emphasize enough the importance of the timely and accurate reconciliations of cash in order to have an effective system of internal controls.

Internal control procedures should be designed in a manner that ensures all activity is recorded in the cashbook prepared by the Treasurer as the transactions occur. At the same time as the activity is being posted to the cashbook a corresponding posting would be made to the general ledger maintained by the Accountant's office. The cashbook balance and the general ledger cash balance must match at all times. At the end of each month the Treasurer would complete a reconciliation between the cashbook and the individual bank statements. The Treasurer and Accountant would then reconcile the cashbook and the general ledger shortly thereafter.

Condition:

During our audit we noted the following regarding the Treasurer's reconciliation process:

- During our audit (fiscal year 2014) we noted that individual bank statement reconciliations were not being performed properly with reconciling items documented and reconciled to the Treasurer's cashbook.
- We could not locate or determine that effective and periodic reconciliations of the Treasurer's records to the Town Accountant's general ledger were being completed in fiscal year 2014. A cash variance of approximately \$28,000 exists at June 30, 2014 between the Treasurer's records and Accountant's general ledger.

Perspective Information:

In fiscal year 2015 the Town had a change in personnel for the Treasurer's position. Furthermore, the Town hired a consultant to assist in the reconciliations of the Treasurer's records for cash and investments. The consultant has made improvements to the reconciliation process and we encourage this process to continue.

Effect:

The absence of having timely and proper cash reconciliations significantly increases the risk that misstatement due to error or fraud may occur and not be detected, prohibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

Recommendation:

We cannot emphasize enough the importance of the timely reconciliation of cash in order to have an effective system of internal controls. We strongly recommend management closely monitor this situation to insure that cash is reconciled in a timely manner between the treasurer's records and the town accountant general ledger.

Management's Response:

The Town shares in the Auditor's concerns and has made changes to resources and practices in order to reconcile cash and investments to the bank statements and to the general ledger on a monthly basis.