

TOWN OF PHILLIPSTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2015

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2015

TOWN OF PHILLIPSTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the Town) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2015 and the respective changes in financial position where applicable in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Implementation of New Accounting Standards

As disclosed in the Note III to the financial statements, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, during fiscal year 2015. Our opinion was not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over the financial reporting and compliance.

Roselli Clark and Associates

Roselli, Clark & Associates
Certified Public Accountants
May 31, 2016

Management's Discussion and Analysis

As the management of the Town of Phillipston, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information as listed in the table of contents.

Financial Highlights

- The Town implemented a new pension accounting standard in fiscal year 2015. As a result, the previously reported net position in the governmental activities was reduced by approximately \$1.0 million for the net pension liability at July 1, 2014.
- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by over \$5.0 million (*total net position*). Of this amount, approximately \$0.5 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by just under \$0.1 million in fiscal year 2015. Operations were predominantly in line with expectations.
- The Town's unassigned fund balance reported in the General Fund was over \$0.6 million (19.4% of General Fund expenditures). Total fund balance in the General Fund was over \$0.8 million (25.5% of General Fund expenditures). Furthermore, the Town reported a restricted fund balance of approximately \$0.4 million in the Community Preservation Act Fund; and reported total fund balance of approximately \$0.1 million in the Nonmajor Governmental Funds.
- The Town's total debt and long-term notes decreased by \$65,645 to \$794,334 from its prior year balance. This decrease was due to the normal scheduled principal repayments that were made against the Town's outstanding general obligations and notes payable in fiscal year 2015.
- In fiscal year 2015 the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the Town decreased its short-term borrowings liabilities by \$248,438 to \$174,888.

Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

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

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

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

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences, as indicated within the table of contents.

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

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

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

Government-Wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities	
	June 30, 2015	June 30, 2014
<u>Assets</u>		
Current and other assets	\$ 2,457,489	\$ 2,367,186
Capital assets, net	4,764,476	4,947,220
Total assets	<u>7,221,965</u>	<u>7,314,406</u>
<u>Deferred Outflows of Resources</u>		
	627	-
<u>Liabilities</u>		
Long term liabilities	1,771,459	794,334
Other liabilities	386,935	482,697
Total liabilities	<u>2,158,394</u>	<u>1,277,031</u>
<u>Deferred Inflows of Resources</u>		
	-	-
<u>Net Position</u>		
Net investment in capital assets	3,820,389	3,885,738
Restricted	708,042	677,143
Unrestricted	535,767	1,474,494
Net Position	<u>\$ 5,064,198</u>	<u>\$ 6,037,375</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$5.0 million (*total net position*). This represents a decrease of \$1.0 million from the prior year. The decrease is mainly attributed to the implementation of GASB 68 relating to the recognition of net pension liability of approximately \$1.0 million.

The largest portion (75.4%) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (14.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, (10.6%), may be used to meet the government's ongoing obligations to citizens and creditors.

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

	Governmental Activities	
	2015	2014
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 206,358	\$ 276,450
Operating grants and contributions	70,145	82,012
Capital grants and contributions	49,176	1,142,981
General revenues:		
Property taxes	2,994,200	3,069,289
Intergovernmental	219,900	229,001
Other	289,983	252,358
Total revenues	<u>3,829,762</u>	<u>5,052,091</u>
<u>Expenses</u>		
General government	507,321	1,441,182
Public safety	763,440	717,019
Education	1,854,701	1,853,591
Public works	464,997	214,335
Health and human services	123,232	113,899
Culture and recreation	40,749	32,730
Debt service	31,374	30,046
Total expenses	<u>3,785,814</u>	<u>4,402,802</u>
Increase in net position	43,948	649,289
Net Position – beginning of the year	6,037,375	5,388,086
Restatement for net pension liability	<u>(1,017,125)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>5,020,250</u>	<u>5,388,086</u>
Net Position – end of the year	<u>\$ 5,064,198</u>	<u>\$ 6,037,375</u>

Governmental Activities – The Town relies significantly on property taxes, which during 2015 made up approximately 78.2% of total revenues, up from 60.8% in the prior year. Dollar amount decreases due to decreases in debt exclusions were in line with expectations however the overall ratio to total revenue was reduced due to the increase in capital grants and contributions from Community Development funds received in the prior that were used for capital instead of operating, which made up 1.3% of total revenues as compared to 22.6% in previous year. No other revenues sources were greater than 10% of total revenues in fiscal years 2015 or 2014.

The Town's largest expense categories are general government, (13.4%) public safety (20.2%), public works (12.3%) and education (49.0%). Dollar amounts in these expense categories are consistent with the prior year except public works which increased due to the historical winter of 2015 and general government which represented 32.7% of total expenses in the prior year and decreased significantly due to Community Development activity categorized as general government in the prior year (see correlative impact in revenue discussion).

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$1.4 million. Of the ending fund balance over \$0.7 million is *available for spending* at the government's discretion as *unassigned fund balance* in the General Fund. The remainder is earmarked for specific expenditures or unassigned due to deficit balances.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$0.7 million, while total fund balance was nearly \$0.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 19.4% of total general fund expenditures, while total fund balance represents approximately 25.5% of that same amount.

The Town maintains a Community Preservation Fund. This fund is restricted for historical preservation and conservation of open space. At June 30, 2015, the Community Preservation Fund balance had nearly \$0.4 million, and was consistent with the prior year.

The remainder of the governmental funds are; (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$40,000; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$240,000; or (3) unassigned deficit in the amount of approximately \$(150,000). The negative balance in the unassigned category is due to the Town subsidizing capital projects with short-term notes. The Town expects to mature these notes ratably over the next two years.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,696,347
Receivables, net of allowance for uncollectible accounts:	
Real estate and personal property taxes	331,829
Departmental and other	402,292
Due from Commonwealth	27,021
Capital assets not being depreciated	1,308,200
Capital assets, net of accumulated depreciation	3,456,276
Total Assets	7,221,965
Total Deferred Outflows of Resources	627
Liabilities	
Warrants and accounts payable	138,567
Accrued payroll and withholdings	3,085
Other liabilities	5,750
Bond anticipation notes payable	174,888
Noncurrent liabilities:	
Due within one year	64,645
Due in more than one year	1,771,459
Total Liabilities	2,158,394
Total Deferred Inflows of Resources	-
Net Position	
Net investment in capital assets	3,820,389
Restricted:	
Nonexpendable permanent funds	39,649
Expendable permanent funds	51,030
Community preservation funds	425,179
Other purposes	192,184
Unrestricted	535,767
Total Net Position	\$ 5,064,198

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 507,321	\$ 70,264	\$ 9	\$ -	\$ (437,048)
Public safety	763,440	91,206	4,918	-	(667,316)
Education	1,854,701	-	-	-	(1,854,701)
Public works	464,997	36,732	-	49,176	(379,089)
Health and human services	123,232	7,856	23,799	-	(91,577)
Culture and recreation	40,749	300	41,419	-	970
Interest expense	31,374	-	-	-	(31,374)
Total Primary Government	\$ 3,785,814	\$ 206,358	\$ 70,145	\$ 49,176	(3,460,135)
<u>General Revenues:</u>					
					2,994,200
					219,900
					227,982
					58,931
					3,070
					<u>3,504,083</u>
					Change in Net Position 43,948
					Net Position - Beginning, as restated (See Note IV) <u>5,020,250</u>
					Net Position - Ending <u>\$ 5,064,198</u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 955,419	\$ 425,234	\$ 315,694	\$ 1,696,347
Receivables, net of allowance:				
Real estate and personal property taxes	328,930	2,899	-	331,829
Departmental and other	328,832	-	73,460	402,292
Due from Commonwealth	-	-	27,021	27,021
Total Assets	<u>1,613,181</u>	<u>428,133</u>	<u>416,175</u>	<u>2,457,489</u>
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,613,181</u>	<u>\$ 428,133</u>	<u>\$ 416,175</u>	<u>\$ 2,457,489</u>
Liabilities				
Warrants and accounts payable	\$ 103,795	\$ 55	\$ 34,717	\$ 138,567
Accrued payroll and withholdings	3,085	-	-	3,085
Other liabilities	5,750	-	-	5,750
Short-term notes payable	-	-	174,888	174,888
Total Liabilities	<u>112,630</u>	<u>55</u>	<u>209,605</u>	<u>322,290</u>
Deferred Inflows of Resources:				
Unavailable revenues - property taxes	566,529	-	-	566,529
Unavailable revenues - excise	53,101	-	-	53,101
Unavailable revenues - other	-	2,899	73,460	76,359
Total Deferred Inflows of Resources	<u>619,630</u>	<u>2,899</u>	<u>73,460</u>	<u>695,989</u>
Fund Balances:				
Nonspendable:	-	-	39,649	39,649
Restricted:	-	425,179	243,214	668,393
Committed	-	-	-	-
Assigned	211,392	-	-	211,392
Unassigned	669,529	-	(149,753)	519,776
Total Fund Balances	<u>880,921</u>	<u>425,179</u>	<u>133,110</u>	<u>1,439,210</u>
Total Liabilities, Deferred Inflows or Resources, and Fund Balances	<u>\$ 1,613,181</u>	<u>\$ 428,133</u>	<u>\$ 416,175</u>	<u>\$ 2,457,489</u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Governmental Fund Balances	\$ 1,439,210
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,764,476
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	695,989
Deferred outflows and inflows of resources to be recognized in future pension are not available resources and, therefore, are not reported in the funds: Net Difference between projected and actual earnings on pension plan investments.	627
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds: Bonds and notes payable Net pension liability	(794,334) <u>(1,041,770)</u>
Net Position of Governmental Activities	<u><u>\$ 5,064,198</u></u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2015**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Real estate and personal property taxes, net	\$ 2,916,630	\$ 41,419	\$ -	\$ 2,958,049
Intergovernmental	232,971	40,445	65,805	339,221
Motor vehicle and other excises	223,858	-	-	223,858
Departmental and other revenue	45,014	-	156,453	201,467
License and permits	22,831	-	-	22,831
Penalties and interest on taxes	58,931	-	-	58,931
Fines and forfeitures	8,128	-	-	8,128
Investment income	1,925	-	1,145	3,070
Total Revenues	<u>3,510,288</u>	<u>81,864</u>	<u>223,403</u>	<u>3,815,555</u>
Expenditures				
Current:				
General government	437,310	-	28,865	466,175
Public safety	532,863	-	90,415	623,278
Education	1,800,457	-	-	1,800,457
Public works	322,387	-	52,307	374,694
Health and human services	83,762	-	14,698	98,460
Culture and recreation	38,275	300	-	38,575
Fringe and Pension Benefits	142,237	-	-	142,237
State and county assessments	3,802	-	-	3,802
Debt service:				
Principal	65,645	-	-	65,645
Interest expense	31,374	-	-	31,374
Total Expenditures	<u>3,458,112</u>	<u>300</u>	<u>186,285</u>	<u>3,644,697</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>52,176</u>	<u>81,564</u>	<u>37,118</u>	<u>170,858</u>
Other Financing Sources (Uses)				
Transfers in	7,697	-	56,474	64,171
Transfers out	(56,474)	-	(7,697)	(64,171)
Total Other Financing Sources (Uses)	<u>(48,777)</u>	<u>-</u>	<u>48,777</u>	<u>-</u>
Net Change in Fund Balances	3,399	81,564	85,895	170,858
Fund Balances - Beginning	877,522	343,615	47,215	1,268,352
Fund Balances - Ending	<u>\$ 880,921</u>	<u>\$ 425,179</u>	<u>\$ 133,110</u>	<u>\$ 1,439,210</u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 170,858**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items.

Capital outlays	\$ 49,176	
Depreciation expense	<u>(231,920)</u>	
Net effect of reporting capital assets		(182,744)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amount presented here as a reconciling item represents the following differences:

Repayments of debt		65,645
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Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the following differences derived from unavailable revenue.

		14,207
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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.

Pension benefits		(24,018)
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Change in Net Position of Governmental Activities		<u>\$ 43,948</u>
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See accompanying notes to basic financial statements.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets - At June 30, 2015, the Town's investment in capital assets totaled approximately \$4.8 million, net of accumulated depreciation. Net fixed assets decreased approximately \$0.1 million in 2015 as 2015 depreciation expense exceeded capital additions by \$0.1 million.

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

Long-Term Debt - At the end of the current fiscal year, the Town had total debt outstanding of approximately \$1.0 million, which consists of long-term debt in the form of general obligation bonds of approximately \$0.8 million and short-term borrowings in the form of BANs and a SAN of almost \$0.2 million. The Town's long-term debt decreased by \$65,645 due to normal, scheduled principal payments for 2015. The Town's short-term borrowings decreased almost \$0.1 million from the prior year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$9.5 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in Notes II, Sections E and F of this report.

Economic Factors and Next Year's Budgets and Rates

- Town's real estate tax base is made up predominantly of residential taxes, which in 2015 are approximately 94% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy.
- The Town's housing market has stabilized and housing prices in this area of the country on average rose from the recent downward trend; however, housing prices are still below their 2005 peaks.
- Consistent with both State and National work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. This trend is expected to improve in calendar year 2016.
- The Town's median household income is significantly higher than the state-wide and national averages.

These factors, amongst others, were considered in preparing the Town's budget for the 2016 fiscal year. Town set its tax rate for 2016 in December 2015.

Requests for Information

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

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

The Town is a member community of the Narragansett Regional School District that provides educational services to two area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2015, the Town's share of the operating and debt service expenses was \$1,603,542. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located 462 Baldwinville Road, Baldwinville, MA 01436.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported on these statements. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Major individual government funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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

- 1) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental are at least ten percent of the corresponding element for all funds of that category or type, and

- 2) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund are at least five 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.

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

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

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

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

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

The government reports the following major governmental funds:

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

Community Preservation Act Fund – is used to account for funds received in accordance with the Massachusetts Community Preservation Act. Funds are used to acquire or develop open space and recreational facilities, preservation of historic resources and affordable housing.

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

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

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

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

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

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

Investments for the Town are reported at fair value.

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

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

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

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

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

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

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

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

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

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

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

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then. The Town has one item that is reported on the government-wide statement of net position which relate to outflows from charges in the net pension liability. The deferred pension will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The Town has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies

for reporting in this category. Accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, excise tax and other. These amounts are deferred and recognized as an inflow of resource in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt and are not considered to be capital related debt.

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

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

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

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

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

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

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

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

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

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

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

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

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

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

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

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Non-Spendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 39,649	\$ 39,649
Restricted:				
General government	-	-	48,231	48,231
Public safety	-	-	14,766	14,766
Public works	-	-	81,420	81,420
Health and human services	-	-	44,021	44,021
Culture and recreation	-	-	54,776	54,776
Community preservation	-	425,179	-	425,179
Assigned:				
General government	211,392	-	-	211,392
Unassigned	669,529	-	(149,753)	519,776
Totals	<u>\$ 880,921</u>	<u>\$ 425,179</u>	<u>\$ 133,110</u>	<u>\$ 1,439,210</u>

Stabilization Fund – The Town maintains a general stabilization fund which may be used for any municipal purpose upon two-thirds vote of a Town Meeting. The balance of the funds totals \$335,592 at June 30, 2015 and is reported as unassigned fund balance in the general fund.

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

At June 30, 2015, encumbrances totaled \$106,392 and were reported as assigned in the general fund.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$92,000. This amount will be raised through taxation in fiscal year 2016.

The Town's capital projects fund has a legal deficit fund balance of \$149,753 at June 30, 2015. Town anticipates funding this deficit through future taxation.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

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

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. However, the Town maintains private collateralization agreements, in addition to federal depository insurance, to assist it in mitigating this risk. At year-end, the carrying amount of the Town's deposits was \$1,696,347 and the bank balance was \$1,767,323 and the bank balance was \$1,767,323. Of the Town's bank balance \$632,038 was covered by federal depository insurance; \$544,064 was collateralized; and the remaining was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of a invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal

investment and/or investment earnings. The town hasn't developed formal policies to mitigate custodial credit risk with respect to investments. The Town's investments consist of \$449,028 invested in the MMDT, which are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

Concentration of Credit Risk –The Town places a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town maintained 100% of its investments in the MMDT.

Credit Risk – Investments in the MMDT are unrated

B. Receivables

Receivables as of year-end for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 331,829	\$ -	\$ 331,829
Tax liens and foreclosures	275,731	-	275,731
Excise taxes	53,101	-	53,101
Septic Loans	54,636	-	54,636
Ambulance fees	18,824	-	18,824
Intergovernmental	27,021	-	27,021
Total	<u>\$ 761,142</u>	<u>\$ -</u>	<u>\$ 761,142</u>

Governmental funds report deferred inflows or resources in connections with receivables for revenues that are considered unavailable to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds.

	General Fund	Other Governmental Funds	Net Amount
Receivable type:			
Real estate and personal property taxes	\$ 290,798	\$ -	\$ 290,798
Tax liens and deferrals	275,731	-	275,731
Motor vehicle	53,101	-	53,101
Departmental and other	-	73,460	73,460
Community preservation surcharges	-	2,899	2,899
Total	<u>\$ 619,630</u>	<u>\$ 76,359</u>	<u>\$ 695,989</u>

C. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2015 are summarized as follows:

Transfers Out	Transfers In		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 56,474	\$ 56,474 (1)
Nonmajor Governmental Funds	7,697	-	7,697 (2)
Total	<u>\$ 7,697</u>	<u>\$ 56,474</u>	<u>\$ 64,171</u>

(1) Transfers to nonmajor funds to paydown maturing BAN and to raise deficit in prior year.

(2) Transfers to general fund to supplement debt service related to Title V loans.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,308,200	\$ -	\$ -	\$ 1,308,200
Total capital assets not being depreciated	<u>1,308,200</u>	<u>-</u>	<u>-</u>	<u>1,308,200</u>
Capital assets being depreciated:				
Buildings and improvements	4,596,926	-	-	4,596,926
Infrastructure	4,702,483	31,676	-	4,734,159
Machinery and equipment	993,304	-	-	993,304
Vehicles	1,642,995	17,500	-	1,660,495
Total capital assets being depreciated	<u>11,935,708</u>	<u>49,176</u>	<u>-</u>	<u>11,984,884</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,768,775)	(84,089)	-	(2,852,864)
Infrastructure	(3,547,793)	(25,871)	-	(3,573,664)
Machinery and equipment	(660,367)	(56,412)	-	(716,779)
Vehicles	(1,319,753)	(65,548)	-	(1,385,301)
Total accumulated depreciation	<u>(8,296,688)</u>	<u>(231,920)</u>	<u>-</u>	<u>(8,528,608)</u>
Total capital assets being depreciated, net	<u>3,639,020</u>	<u>(182,744)</u>	<u>-</u>	<u>3,456,276</u>
Total governmental activities capital assets, net	<u>\$ 4,947,220</u>	<u>\$ (182,744)</u>	<u>\$ -</u>	<u>\$ 4,764,476</u>

For the fiscal year ended June 30, 2015, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 2,929
Public safety	93,112
Education	29,306
Public works	104,399
Culture and recreation	2,174
	<u>\$ 231,920</u>

E. Temporary Debt

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

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund. Temporary notes outstanding at June 30, 2015 are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2014	Additions	Retirements	June 30, 2015
BAN	0.58%	matured	\$ 43,600	\$ -	\$ (43,600)	\$ -
BAN	0.55%	matured	204,838	-	(204,838)	-
BAN	0.55%	12/6/15	-	21,800	-	21,800
BAN	0.54%	12/4/15	-	153,088	-	153,088
Total Governmental Notes			<u>248,438</u>	<u>174,888</u>	<u>(248,438)</u>	<u>174,888</u>
Total Notes Payable			<u>\$ 248,438</u>	<u>\$ 174,888</u>	<u>\$ (248,438)</u>	<u>\$ 174,888</u>

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

BAN – public safety (fire) equipment acquisition	\$ 153,088
BAN – public safety (ambulance) equipment acquisition	<u>21,800</u>
	<u>\$ 174,888</u>

F. Long-Term Obligations

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

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” The Town may authorize debt in excess of that limit for specific purposes; such as debt when issued, is designated as being “outside the debt limit”.

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 859,979	\$ -	\$ (65,645)	\$ 794,334	\$ 64,645
Net pension liability	* 1,017,125	93,830	(69,185)	1,041,770	-
Total Governmental Activities	\$ 1,877,104	\$ 93,830	\$ (134,830)	\$ 1,836,104	\$ 64,645

* = Restated due to GASB 68 implementation (See Note III, Subsection E)

The governmental activities liabilities will be liquidated by the general fund.

The following is a summary of the outstanding long-term debt obligations as of June 30, 2015:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
MWPAT (Series 6: 97-1186) - Title	0.00%	\$ 53,724	\$ -	\$ (7,696)	\$ 46,028
General Obligation Bonds	4.13%	610,255	-	(17,949)	592,306
State House Loan	1.95%	196,000	-	(40,000)	156,000
Total Governmental Activities		\$ 859,979	\$ -	\$ (65,645)	\$ 794,334

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

Year Ending June 30	<i>Governmental Activities - Total Bond and Note Indebtedness</i>						
	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2016	\$ 64,645	\$ -	\$ 64,645	\$ 29,791	\$ (2,316)	\$ 27,475	\$ 92,120
2017	64,645	-	64,645	27,857	(1,883)	25,974	90,619
2018	64,645	-	64,645	25,823	(1,350)	24,473	89,118
2019	64,645	-	64,645	23,889	(917)	22,972	87,617
2020	25,645	-	25,645	22,069	(598)	21,471	47,116
2021-2025	97,293	-	97,293	96,447	(198)	96,249	193,542
2026-2030	89,745	-	89,745	77,739	-	77,739	167,484
2031-2035	89,745	-	89,745	59,229	-	59,229	148,974
2036-2040	89,745	-	89,745	40,719	-	40,719	130,464
2041-2045	89,745	-	89,745	22,211	-	22,211	111,956
2046-2050	53,836	-	53,836	4,441	-	4,441	58,277
Total	\$ 794,334	\$ -	\$ 794,334	\$ 430,215	\$ (7,262)	\$ 422,953	\$ 1,217,287

MWPAT Loan Subsidies – The Town has entered into a loan agreement with the Massachusetts Water Pollution Abatement Trust (“MWPAT”). It is expected that the Town will be subsidized by MWPAT on a periodic basis for total interest costs of \$7,262 in fiscal years 2016 through 2023.

Authorized and Unissued Debt – At June 30, 2015, the Town had the following authorized and unissued amounts for unissued debt.

Project	Amount Authorized	Spent to Date	Commitment Remaining
Memorial School Boiler	\$ 143,246	\$ 57,528	\$ 85,718
Houghton Land Acquisition	180,000	64,800	115,200
	\$ 323,246	\$ 122,328	\$ 200,918

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2014 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-five employers as of December 31, 2014 was as follows:

Active and inactive employees	8,550
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>3,253</u>
	<u>11,803</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers’ Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

Contributions Requirements – The Retirement System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$69,185 to the Retirement System in fiscal year 2015, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 13.7% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the Town reported a liability of \$1,041,770 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 0.18% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2014, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$93,203 in pension expense in the statement of activities in fiscal year 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	627	—
Changes in proportion and differences between Town contributions and proportionate share of contributions	—	—
Town contributions subsequent to the measurement date	<u>—</u>	<u>—</u>
Total	<u>\$ 627</u>	<u>\$ —</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

Year ended June 30,

2016	\$ 157
2017	157
2018	157
2019	<u>156</u>
Total	<u>\$ 627</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Inflation:	Not explicitly assumed for the update to December 31, 2014 (3.5% per year for the actuarial valuation as of January 1, 2014).
Salary increased:	3.0% per year, including longevity.
Investment rate of return:	8.0%, net of pension plan investment expense, including inflation.
Mortality rates:	Based on the RP-2000 Mortality Table projected to 2014 with Scale AA.
Disabled life mortality:	For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	43 %	8.23 %
Fixed income	23 %	5.05 %
Private equity	10 %	9.75 %
Real estate	10 %	6.50 %
Timber/natural resources	4 %	6.88 %
Hedge funds	10 %	7.00 %

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 8.0%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate:

	1% Decrease <u>(7.0%)</u>	Current Discount <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
Town's proportionate share of the net pension liability	\$ 1,268,403	\$ 1,041,770	\$ 849,329

B. Risk Financing

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

C. Other Post-Employment Benefits

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

D. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2015, cannot be determined, Town management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2015.

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

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

E. Implementation of New GASB Pronouncements

Current Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impact the financial reports of the pension systems that communities participate in and not the financial statements of the communities themselves.

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

comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the Town in fiscal year 2015 and had a material effect on its financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of GASB 69 became effective for the Town in fiscal 2015 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the Town in fiscal year 2015 and did not have a material effect on its financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the Town in fiscal year 2015 and did not have a material effect on its financial statements.

Future Year Implementation

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for*

Postemployment Benefit Plans Other than Pension Plans. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatement

Net position reported in the Town's June 30, 2014 financial statements were restated to recognize the implementation of GASB 68, which required the Town to record its share of the Retirement System's net pension liability. As a result, the governmental activities beginning net position was decreased \$1,017,125 from \$6,037,355 to \$5,020,250.

TOWN OF PHILLIPSTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollar amounts are in thousands)

	Year Ended December 31, <u>2014</u>
Town's proportion of the net pension liability (asset)	0.17507%
Town's proportionate share of the net pension liability (asset)	\$ 1,041
Town's covered-employee payroll	\$ 503
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	207.0%
Plan fiduciary net position as a percentage of the total pension liability	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

(dollar amounts are in thousands)

	Year Ended December 31, <u>2014</u>
Actuarially determined contribution	\$ 69
Contributions in relation to the actuarially determined contribution	<u>69</u>
Contribution deficiency (excess)	<u>\$ -</u>
Town's covered-employee payroll	\$ 503
Contributions as a percentage of covered-employee payroll	13.7%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

TOWN OF PHILLIPSTON, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance Positive (Negative)
	Original Budget	Final Budget	Budgetary Amounts		Budgetary Adjusted	
REVENUES						
Real estate and personal property taxes, net	\$ 2,900,326	\$ 2,900,326	\$ 2,900,925	\$ -	\$ 2,900,925	\$ 599
Intergovernmental	227,681	227,681	232,971	-	232,971	5,290
Motor vehicle and other excises	213,000	213,000	223,858	-	223,858	10,858
Departmental and other revenue	45,500	45,500	45,014	-	45,014	(486)
License and permits	20,000	20,000	22,831	-	22,831	2,831
Penalties and interest on taxes	40,000	40,000	58,931	-	58,931	18,931
Fines and forfeitures	11,500	11,500	8,128	-	8,128	(3,372)
Investment income	1,300	1,300	1,311	-	1,311	11
Total Revenues	<u>3,459,307</u>	<u>3,459,307</u>	<u>3,493,969</u>	<u>-</u>	<u>3,493,969</u>	<u>34,662</u>
EXPENDITURES						
General government	589,318	589,318	437,310	88,108	525,418	63,900
Public safety	562,652	562,652	532,863	10,055	542,918	19,734
Education	1,808,666	1,808,666	1,800,457	8,209	1,808,666	-
Public works	233,920	233,920	322,387	20	322,407	(88,487)
Health and human services	103,656	103,656	83,762	-	83,762	19,894
Culture and recreation	58,525	58,525	42,999	-	42,999	15,526
State and county tax assessments	3,802	3,802	3,802	-	3,802	-
Pension and other fringe Benefits	183,185	183,185	142,237	-	142,237	40,948
Debt service	155,570	155,570	148,769	-	148,769	6,801
Total Expenditures	<u>3,699,294</u>	<u>3,699,294</u>	<u>3,514,586</u>	<u>\$ 106,392</u>	<u>3,620,978</u>	<u>78,316</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	81,584	81,584	81,584		81,584	-
Transfers out	<u>(98,000)</u>	<u>(98,000)</u>	<u>(98,000)</u>		<u>(98,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(16,416)</u>	<u>(16,416)</u>	<u>(16,416)</u>		<u>(16,416)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(256,403)</u>	<u>(256,403)</u>	<u>(37,033)</u>		<u>(143,425)</u>	<u>(43,654)</u>
Other budget items:						
Free Cash	157,536	157,536				
Prior year snow and ice deficit	(73,094)	(73,094)				
Prior year encumbrances and carryovers	171,961	171,961				
Miscellaneous items	-	-				
Total other budget items	<u>256,403</u>	<u>256,403</u>				
Net budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying notes to financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

I. Budgetary Basis of Accounting

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

Budgetary-to-GAAP Reconciliation – The Town’s general fund budget is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2015, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues on a budgetary basis			\$ 3,493,969
Stabilization revenue	\$ -	\$ 614	614
Sixty day receivable difference	15,705	-	15,705
Revenues on a GAAP basis	<u>\$ 15,705</u>	<u>\$ -</u>	<u>\$ 3,510,288</u>
Expenditures on a budgetary basis			\$ 3,514,586
Debt recognition	\$ -	\$ (56,474)	(56,474)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (56,474)</u>	<u>\$ 3,458,112</u>
Other financing sources (uses) on a budgetary basis			\$ (16,416)
Debt recognition	-	(56,474)	(56,474)
Stabilization transfers	-	24,113	24,113
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ (32,361)</u>	<u>\$ (48,777)</u>

Appropriation Deficits – During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$93,000. This amount will be raised through taxation in fiscal year 2016.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Phillipston, Massachusetts (the "Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 31, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli Clark and Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 31, 2016