

TOWN OF PHILLIPSTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2016

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2016

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, 2016, 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, 2016 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.

Other Reporting Required by *Government Auditing Standards*

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

Roselli, Clark & Associates
Certified Public Accountants
PENDING APPROVAL

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, 2016. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information as listed in the table of contents.

Financial Highlights

- The assets and deferred outflows of resources for the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$5.6 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 Town's total general obligated bond and notes payable debt decreased by approximately \$0.1 million to approximately \$0.8 million. This decrease was due to the normal, scheduled repayment of long-term general obligations. The Town didn't issue any new long-term debt during the fiscal year.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combining ending fund balance surplus of approximately \$1.7 million, which is an increase of nearly \$0.3 million over the prior year of approximately \$1.4 million. Total fund balance in the General Fund was over \$1.1 million (31.1% of General Fund expenditures). Furthermore, the Town reported a restricted fund balance of almost \$0.5 million in the Community Preservation Act Fund, and reported a total fund balance of almost \$0.2 million in the Nonmajor Governmental Funds.

Overview of the Financial Statements

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

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

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

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

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

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

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

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.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town’s progress in funding its obligation to provide pension benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.

Government-Wide Financial Analysis

The condensed statement of net position is as follows:

	Governmental Activities	
	June 30, 2016	June 30, 2015
<u>Assets</u>		
Current and other assets	\$ 2,687,931	\$ 2,457,489
Capital assets, net	5,186,817	4,764,476
Total assets	<u>7,874,748</u>	<u>7,221,965</u>
<u>Deferred Outflows of Resources</u>		
	396,594	627
<u>Liabilities</u>		
Long term liabilities	2,276,853	1,771,459
Other liabilities	406,904	386,935
Total liabilities	<u>2,683,757</u>	<u>2,158,394</u>
<u>Deferred Inflows of Resources</u>		
	-	-
<u>Net Position</u>		
Net investment in capital assets	4,257,797	3,820,389
Restricted	807,711	708,042
Unrestricted	522,077	535,767
Net Position	<u>\$ 5,587,585</u>	<u>\$ 5,064,198</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 \$5.5 million (*total net position*). This represents an increase of over \$0.5 million from the prior year. The increase in governmental activities was primarily due to favorable revenues as compared to budget of approximately \$0.1 million and favorable expenditures as compared to budget of \$0.2 million in the general fund.

The largest portion 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* 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	
	2016	2015
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 306,257	\$ 206,358
Operating grants and contributions	143,910	70,145
Capital grants and contributions	379,879	49,176
General revenues:		
Property taxes	3,126,892	2,994,200
Intergovernmental	247,718	219,900
Other	305,538	289,983
Total revenues	<u>4,510,194</u>	<u>3,829,762</u>
<u>Expenses</u>		
General government	592,644	507,321
Public safety	854,755	763,440
Education	1,906,417	1,854,701
Public works	408,526	464,997
Health and human services	143,105	123,232
Culture and recreation	52,441	40,749
Debt service	28,919	31,374
Total expenses	<u>3,986,807</u>	<u>3,785,814</u>
Increase in net position	523,387	43,948
Net Position – beginning of the year	5,064,198	6,037,375
Restatement for net pension liability	-	<u>(1,017,125)</u>
Net position, beginning of year, as restated	<u>5,064,198</u>	<u>5,020,250</u>
Net Position – end of the year	<u>\$ 5,587,585</u>	<u>\$ 5,064,198</u>

Governmental Activities – The Town relies significantly on property taxes. These increased about \$130,000 over the prior year. This was an expected increase due to the statutorily allowable 2 ½% under Massachusetts General Laws plus new growth. Capital grants and contributions and operating grants increased by over \$400,000 as this was an on year for Chapter 90 public roadwork projects. The Town received \$341,000 in such activity. No other revenues sources were greater than 10% of total revenues in fiscal years 2016 or 2015.

Education represents the largest expense category for the Town. In total, education expenses represent approximately 47.8% of total fiscal year 2016 expenses which is consistent with the prior year of 49.0%. General Government represented 14.9% of expenditures which is consistent with prior year of 13.4%. Public safety represented 21.4% of total expenditures which was consistent with prior year of 20.2%. Public works represented 10.2% of total expenditures which is consistent with prior year of 12.3%. No other expenditure sources were greater than 10% of total expenditures in fiscal year 2016 or 2015.

Governmental Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance of approximately \$1.7 million. Of the ending fund balance almost \$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 \$1.1 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 18.5% of total general fund expenditures, while total fund balance represents approximately 31.1% of that same amount.

The Town maintains a Community Preservation Fund which is restricted for historical preservation and conservation of open space. At June 30, 2016, the Community Preservation Fund balance had nearly \$0.5 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 \$315,000; or (3) unassigned deficit in the amount of approximately \$(199,000). 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.

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, 2016, the Town's investment in capital assets totaled approximately \$5.2 million, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, machinery and equipment and reflects an increase of approximately \$0.4 million. This increase was a result of current year additions exceeding depreciation.

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 \$0.9 million, which consists of long-term debt in the form of general obligation bonds of approximately \$0.7 million and short-term borrowings in the form of BANs and a SAN of almost \$0.2 million. The Town's long-term debt decreased by \$65,645 due to normal, scheduled principal payments for 2016. 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 \$9.6 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 2017 are approximately 94% of the entire levy and will generate approximately \$3.1 million in revenue. 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.
- Consistent with both State and National indices, the Town's housing market has stabilized over the past several years after experiencing a downward trend from 2005 to 2010. However, unlike the majority of the Commonwealth, which has seen a resurgence, housing prices in the region have not recovered at the same pace.
- Inflationary trends in the region are consistent with state and national indices.
- The Town's median household income is significantly less than the state-wide and national averages.

These factors, amongst others, were considered in preparing the Town's budget for the 2017 fiscal year. The Town set its tax rate for 2017 in December 2016.

Requests for Information

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

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,991,681
Receivables, net of allowance for uncollectible accounts:	
Property taxes	220,388
Departmental and other	420,862
Intergovernmental	55,000
Land	1,308,200
Capital assets, net of accumulated depreciation	3,878,617
Total Assets	7,874,748
 Deferred Outflows of Resources	
Deferred Pension	396,594
Total Deferred Outflows of Resources	396,594
 Liabilities	
Warrants and accounts payable	130,403
Accrued payroll and withholdings	3,440
Other liabilities	5,750
Bond anticipation notes payable	202,666
Noncurrent liabilities:	
Due within one year	64,645
Due in more than one year	2,276,853
Total Liabilities	2,683,757
 Total Deferred Inflows of Resources	 -
 Net Position	
Net investment in capital assets	4,257,797
Restricted:	
Nonexpendable permanent funds	39,957
Expendable permanent funds	48,927
Community preservation funds	451,914
Other purposes	266,913
Unrestricted	522,077
Total Net Position	\$ 5,587,585

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 592,644	\$ 66,219	\$ -	\$ -	\$ (526,425)
Public safety	854,755	177,045	9,703	65,360	(602,647)
Education	1,906,417	-	-	-	(1,906,417)
Public works	408,526	12,361	-	314,519	(81,646)
Health and human services	143,105	50,632	38,335	-	(54,138)
Culture and recreation	52,441	-	95,872	-	43,431
Interest expense	28,919	-	-	-	(28,919)
Total Primary Government	<u>\$ 3,986,807</u>	<u>\$ 306,257</u>	<u>\$ 143,910</u>	<u>\$ 379,879</u>	<u>(3,156,761)</u>
<u>General Revenues:</u>					
					3,126,892
					247,718
					244,789
					56,969
					3,780
					<u>3,680,148</u>
					Change in Net Position
					523,387
					Net Position - Beginning
					<u>5,064,198</u>
					Net Position - Ending
					<u>\$ 5,587,585</u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,140,175	\$ 485,164	\$ 366,342	\$ 1,991,681
Receivables, net of allowance:				
Property taxes	217,256	3,132	-	220,388
Departmental and other	355,295	-	65,567	420,862
Intergovernmental	55,000	-	-	55,000
Total Assets	<u>1,767,726</u>	<u>488,296</u>	<u>431,909</u>	<u>2,687,931</u>
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 1,767,726</u>	<u>\$ 488,296</u>	<u>\$ 431,909</u>	<u>\$ 2,687,931</u>
Liabilities				
Warrants and accounts payable	\$ 89,943	\$ 33,250	\$ 7,210	\$ 130,403
Accrued payroll and withholdings	3,440	-	-	3,440
Other liabilities	5,750	-	-	5,750
Short-term notes payable	-	-	202,666	202,666
Total Liabilities	<u>99,133</u>	<u>33,250</u>	<u>209,876</u>	<u>342,259</u>
Deferred Inflows of Resources:				
Unavailable revenues - property taxes	197,164	3,132	-	200,296
Unavailable revenues - other	355,295	-	65,567	420,862
Total Deferred Inflows of Resources	<u>552,459</u>	<u>3,132</u>	<u>65,567</u>	<u>621,158</u>
Fund Balances:				
Nonspendable	-	-	39,957	39,957
Restricted:	-	451,914	315,840	767,754
Assigned	454,111	-	-	454,111
Unassigned	662,023	-	(199,331)	462,692
Total Fund Balances	<u>1,116,134</u>	<u>451,914</u>	<u>156,466</u>	<u>1,724,514</u>
Total Liabilities, Deferred Inflows or Resources, and Fund Balances	<u>\$ 1,767,726</u>	<u>\$ 488,296</u>	<u>\$ 431,909</u>	<u>\$ 2,687,931</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, 2016

Total Governmental Fund Balances	\$ 1,724,514
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,186,817
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	621,158
Deferred outflows and inflows of resources to be recognized in future pension are not available resources and, therefore, are not reported in the funds.	396,594
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	(729,689)
Net pension liability	<u>(1,611,809)</u>
Net Position of Governmental Activities	<u><u>\$ 5,587,585</u></u>

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 3,150,384	\$ 44,658	\$ -	\$ 3,195,042
Intergovernmental	328,605	40,872	402,030	771,507
Motor vehicle and other excises	243,577	-	-	243,577
Departmental and other revenue	48,677	-	230,236	278,913
License and permits	24,538	-	-	24,538
Penalties and interest on taxes	56,969	-	-	56,969
Fines and forfeitures	10,699	-	-	10,699
Investment income	3,212	-	568	3,780
Total Revenues	<u>3,866,661</u>	<u>85,530</u>	<u>632,834</u>	<u>4,585,025</u>
Expenditures				
Current:				
General government	475,281	-	35,909	511,190
Public safety	594,799	-	276,922	871,721
Education	1,822,963	-	-	1,822,963
Public works	250,602	-	322,045	572,647
Health and human services	72,353	-	16,965	89,318
Culture and recreation	88,808	58,795	-	147,603
Fringe and Pension Benefits	186,915	-	-	186,915
State and county assessments	3,800	-	-	3,800
Debt service:				
Principal	64,645	-	-	64,645
Interest expense	28,919	-	-	28,919
Total Expenditures	<u>3,589,085</u>	<u>58,795</u>	<u>651,841</u>	<u>4,299,721</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>277,576</u>	<u>26,735</u>	<u>(19,007)</u>	<u>285,304</u>
Other Financing Sources (Uses)				
Transfers in	7,699	-	50,060	57,759
Transfers out	(50,062)	-	(7,697)	(57,759)
Total Other Financing Sources (Uses)	<u>(42,363)</u>	<u>-</u>	<u>42,363</u>	<u>-</u>
Net Change in Fund Balances	235,213	26,735	23,356	285,304
Fund Balances - Beginning of year	880,921	425,179	133,110	1,439,210
Fund Balances - End of year	<u><u>\$ 1,116,134</u></u>	<u><u>\$ 451,914</u></u>	<u><u>\$ 156,466</u></u>	<u><u>\$ 1,724,514</u></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, 2016**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 285,304**

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	\$ 664,857	
Depreciation expense	<u>(242,516)</u>	
Net effect of reporting capital assets		422,341

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		64,645
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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.

		(74,831)
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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		(174,072)
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Change in Net Position of Governmental Activities	\$ 523,387
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See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the Town Phillipston (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 2016, the Town’s share of the operating and debt service expenses was \$1,812,057. 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, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

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

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when 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 applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth of Massachusetts (the "Commonwealth").

The Town considers property tax revenues to be available if they are collected within sixty days after the end of the fiscal year 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 to be used for the acquisition or construction of major capital of major capital facilities.

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 of the Town are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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 at the rate of 14% 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 and excise tax receivables are shown net of an allowance for uncollectible accounts comprised of those outstanding amounts greater than five years old. Departmental and other receivables primarily consist of ambulance receivables and are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

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 assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing associated with the Massachusetts Community Preservation Act.

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:

	<u>General</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Non-Spendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 39,957	\$ 39,957
Restricted:				
General government	-	-	62,547	62,547
Public safety	-	-	70,214	70,214
Public works	-	-	78,308	78,308
Health and human services	-	-	52,098	52,098
Culture and recreation	-	-	52,673	52,673
Community preservation	-	451,914	-	451,914
Assigned:				
General government	454,111	-	-	454,111
Unassigned	662,023	-	(199,331)	462,692
Totals	<u>\$ 1,116,134</u>	<u>\$ 451,914</u>	<u>\$ 156,466</u>	<u>\$ 1,724,514</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 \$298,019 at June 30, 2016 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. The Town reports \$106,392 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$11,000. This amount will be raised through taxation in fiscal year 2017.

The Town's capital projects fund has a legal deficit fund balance of \$199,331 at June 30, 2016. 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 \$1,991,681 and the bank balance was \$2,051,626. Of the Town's bank balance \$497,393 was covered by federal depository insurance or the depositors' insurance fund, \$1,096,495 was collateralized; and the remaining was exposed to custodial credit risk because it 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 \$450,923 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.

Fair Value of Investments – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurement within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

The following table’s presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2016:

	<u>June 30, 2016</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities:				
State investment pool	\$ 450,923	\$ -	\$ 450,923	\$ -
Total debt securities	450,923	-	450,923	-
Total investments by fair value level	<u>\$ 450,923</u>	<u>\$ -</u>	<u>\$ 450,923</u>	<u>\$ -</u>

The State Treasurer’s investment pool (MMDT) are classified in Level 2 based on the composition and fair value of the underlying investments contained within these pools, which can be determined using inputs other than quoted prices that are observable either directly or indirectly.

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 – The Town has adopted a formal policy related to 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate and personal property taxes	\$ 220,388	\$ -	\$ 220,388
Tax liens and foreclosures	300,983	-	300,983
Excise taxes	54,313	-	54,313
Septic Loans	48,762	-	48,762
Ambulance fees	16,804	-	16,804
Intergovernmental	55,000	-	55,000
Total	<u>\$ 696,250</u>	<u>\$ -</u>	<u>\$ 696,250</u>

Governmental funds report unavailable revenues 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.

Receivable type:	General	Other	Net
	Fund	Governmental Funds	Amount
Real estate and personel property taxes	\$ 197,164	\$ 3,132	\$ 200,296
Tax liens and deferrals	300,982	-	300,982
Motor vehicle	54,313	-	54,313
Departmental and other	-	65,567	65,567
Total	<u>\$ 552,459</u>	<u>\$ 68,699</u>	<u>\$ 621,158</u>

C. Interfund Receivables, Payables and Transfers

The composition of interfund transfers for the year ended June 30, 2016 is as follows:

Transfers Out	Transfers In		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 50,062	\$ 50,062 (1)
Nonmajor Governmental Funds	7,697	-	7,697 (2)
Total	<u>\$ 7,697</u>	<u>\$ 50,062</u>	<u>\$ 57,759</u>

(1) Transfers to nonmajor funds to paydown maturing BAN.

(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, 2016 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	1,308,200	-	-	1,308,200
Capital assets being depreciated:				
Buildings and improvements	4,596,926	-	-	4,596,926
Infrastructure	4,734,159	439,860	-	5,174,019
Machinery and equipment	993,304	164,998	-	1,158,302
Vehicles	1,660,495	60,000	-	1,720,495
Total capital assets being depreciated	11,984,884	664,858	-	12,649,742
Less accumulated depreciation for:				
Buildings and improvements	(2,852,864)	(84,089)	-	(2,936,953)
Infrastructure	(3,573,664)	(31,519)	-	(3,605,183)
Machinery and equipment	(716,779)	(68,198)	-	(784,977)
Vehicles	(1,385,301)	(58,711)	-	(1,444,012)
Total accumulated depreciation	(8,528,608)	(242,517)	-	(8,771,125)
Total capital assets being depreciated, net	3,456,276	422,341	-	3,878,617
Total governmental activities capital assets, net	\$ 4,764,476	\$ 422,341	\$ -	\$ 5,186,817

For the fiscal year ended June 30, 2016, depreciation expense was charged to functions/programs as follows:

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 2,929
Public safety	105,873
Education	29,307
Public works	101,251
Culture and recreation	3,157
	<u>\$ 242,517</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, 2016 are payable as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Retirements	Ending Balance
BAN	0.55%	matured	\$ 21,800	\$ -	\$ (21,800)	\$ -
BAN	0.54%	matured	153,088	-	(153,088)	-
BAN	0.71%	12/2/16	-	202,666	-	202,666
Total Governmental Notes			174,888	202,666	(174,888)	202,666
Total Notes Payable			\$ 174,888	\$ 202,666	\$ (174,888)	\$ 202,666

Temporary notes were issued for governmental capital projects relating to public safety fire equipment acquisition for \$202,666.

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	\$ 794,334	\$ -	\$ (64,645)	\$ 729,689	\$ 64,645
Net pension liability	1,041,770	672,819	(102,780)	1,611,809	-
Total Governmental Activities	\$ 1,836,104	\$ 672,819	\$ (167,425)	\$ 2,341,498	\$ 64,645

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

General obligation bonds and notes payable outstanding at June 30, 2016 were as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
MWPAT (Series 6: 97-1186) - Title	0.00%	\$ 46,028	\$ -	\$ (7,696)	\$ 38,332
General Obligation Bonds	4.13%	592,306	-	(17,949)	574,357
State House Loan	1.95%	156,000	-	(39,000)	117,000
Total Governmental Activities		\$ 794,334	\$ -	\$ (64,645)	\$ 729,689

Payments on outstanding general obligation bonds and notes payable 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	
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	25,497	-	25,497	20,929	(198)	20,731	46,228
2022-2026	89,745	-	89,745	92,547	-	92,547	182,292
2027-2031	89,745	-	89,745	74,037	-	74,037	163,782
2032-2036	89,745	-	89,745	55,527	-	55,527	145,272
2037-2041	89,745	-	89,745	37,017	-	37,017	126,762
2042-2046	89,745	-	89,745	18,509	-	18,509	108,254
2047-2051	35,887	-	35,887	2,220	-	2,220	38,107
Total	\$ 729,689	\$ -	\$ 729,689	\$ 400,424	\$ (4,946)	\$ 395,478	\$ 1,125,167

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 \$4,946 in fiscal years 2017 through 2021.

Authorized and Unissued Debt – At June 30, 2016, 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 multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The Retirement System was established under Chapter 32 of Massachusetts General Laws and is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2015 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, 2015 was as follows:

Active and inactive employees	6,773
Inactive members entitle to, but not receiving benefits	1,925
Inactive members (or beneficiaries) currently receiving benefits	<u>3,282</u>
	<u>12,080</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.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member or superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2016.

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 \$102,153 to the Retirement System in fiscal year 2016, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 19.5% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$1,611,809 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, 2015. In 2015, the discount rate used in the actuarial valuation decreased from 8.00% to 7.75%. There were no other material changes made in this update to the actuarial assumptions (see below).

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 0.23% at December 31, 2015, 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, 2015, 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 \$276,225 in pension expense in the statement of activities in fiscal year 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, 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>
Changes of assumptions	\$ 59,594	\$ —
Net difference between projected and actual earnings on pension plan investments	79,591	—
Changes in allocated proportion	<u>257,409</u>	<u>—</u>
Total	<u>\$ 396,594</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,	
2017	\$ 96,378
2018	96,378
2019	96,378
2020	96,169
2021	<u>11,291</u>
Total	<u>\$ 396,594</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:

Actuarial cost method	Entry age normal
Amortization method:	Payment increases 4% per year, except for Early Retirement Incentives (ERI) for 2002 and 2003 (4.5%) and 2010 (level dollar).
Remaining amortization period:	20 years, except for ERI for 2002 and 2003 (13 years) and 2010 (7 years)
Asset valuation method:	5 year smoothed market value
Investment rate of return:	7.75% net of pension plan investment expense, including inflation.

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	40 %	8.03 %
Fixed income	23 %	5.09 %
Private equity	10 %	9.50 %
Real estate funds	10 %	6.50 %
Timber/natural resources	4 %	7.07 %
Hedge funds	9 %	6.50 %
Other	4 %	6.18 %

Discount Rate – The discount rate used to measure the total pension was 7.75%. 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 7.75% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Town's proportionate share of the net pension liability	\$ 1,940,640	\$ 1,611,809	\$ 1,332,592

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, 2016, 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, 2016.

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 Implementations –

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed 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 became effective for the Town in fiscal year 2016 and did not have a material effect on its 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 was 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 established requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were 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, 2016 (fiscal year 2017). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its 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 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced 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 became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB 79 established criteria for which an external investment pool may qualify to measure its investment value at amortized cost versus fair value. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

Future Implementations –

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 establishes 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 August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 82 was to address issues raised with respect to previously issued statements related to pensions. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance Positive (Negative)
	Original Budget	Final Budget	Budgetary Amounts		Budgetary Adjusted	
REVENUES						
Real estate and personal property taxes, net	\$ 3,061,523	\$ 3,061,523	\$ 3,168,424	\$ -	\$ 3,168,424	\$ 106,901
Intergovernmental	238,030	293,030	273,605	-	273,605	(19,425)
Motor vehicle and other excises	223,800	223,800	243,577	-	243,577	19,777
Departmental and other revenue	47,800	47,800	48,677	-	48,677	877
License and permits	18,000	18,000	24,538	-	24,538	6,538
Penalties and interest on taxes	58,900	58,900	56,969	-	56,969	(1,931)
Fines and forfeitures	7,800	7,800	10,699	-	10,699	2,899
Investment income	1,300	1,300	2,081	-	2,081	781
Total Revenues	<u>3,657,153</u>	<u>3,712,153</u>	<u>3,828,570</u>	<u>-</u>	<u>3,828,570</u>	<u>116,417</u>
EXPENDITURES						
General government	641,900	631,900	475,281	102,696	577,977	53,923
Public safety	601,739	621,739	594,799	14,123	608,922	12,817
Education	1,836,502	1,836,502	1,822,963	12,784	1,835,747	755
Public works	240,293	240,293	250,602	85	250,687	(10,394)
Health and human services	86,290	86,290	72,353	39	72,392	13,898
Culture and recreation	35,269	100,269	88,808	114	88,922	11,347
State and county tax assessments	3,801	3,801	3,800	-	3,800	1
Pension and other fringe Benefits	218,118	218,118	186,915	-	186,915	31,203
Debt service	155,183	155,183	93,564	-	93,564	61,619
Total Expenditures	<u>3,819,095</u>	<u>3,894,095</u>	<u>3,589,085</u>	<u>\$ 129,841</u>	<u>3,718,926</u>	<u>175,169</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	164,401	164,401	164,403		164,403	2
Transfers out	(118,000)	(118,000)	(168,062)		(168,062)	(50,062)
Total Other Financing Sources (Uses)	<u>46,401</u>	<u>46,401</u>	<u>(3,659)</u>		<u>(3,659)</u>	<u>(50,060)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(115,541)</u>	<u>(135,541)</u>	<u>235,826</u>		<u>105,985</u>	<u>(108,812)</u>
Other budget items:						
Free Cash	105,000	125,000				
Prior year snow and ice deficit	(92,529)	(92,529)				
Prior year encumbrances and carryovers	106,392	106,392				
Miscellaneous items	(3,322)	(3,322)				
Total other budget items	<u>115,541</u>	<u>135,541</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, 2016**

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, 2016, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 3,828,570
Stabilization revenue	\$ -	\$ 1,131	1,131
Intergovernmental receivable adjustment	55,000		55,000
Change in recording tax revenues	(18,040)	-	(18,040)
Revenues on a GAAP basis	<u>\$ (18,040)</u>	<u>\$ -</u>	<u>\$ 3,866,661</u>
Expenditures on a budgetary basis			\$ 3,589,085
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,589,085</u>
Other financing sources (uses) on a budgetary basis			\$ (3,659)
Stabilization transfers	(38,704)	-	(38,704)
Other financing sources (uses) on a GAAP basis	<u>\$ (38,704)</u>	<u>\$ -</u>	<u>\$ (42,363)</u>

Appropriation Deficits – During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$11,000. This amount will be raised through taxation in fiscal year 2017.

TOWN OF PHILLIPSTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2016

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	0.22708%	0.175%
Town's proportionate share of the net pension liability (asset)	\$ 1,611,809	\$ 1,041,770
Town's covered-employee payroll	\$ 523,238	\$ 503,113
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	308.0%	207.1%
Plan fiduciary net position as a percentage of the total pension liability	44.52%	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 102,153	\$ 69,185
Contributions in relation to the actuarially determined contribution	<u>102,153</u>	<u>69,185</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 523,238	\$ 503,113
Contributions as a percentage of covered-employee payroll	19.5%	13.8%

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.



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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated DATE PENDING.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
DATE PENDING