

TOWN OF PAXTON, 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 PAXTON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2016

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	1 – 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 10
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Position – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	21
Notes to Basic Financial Statements	22 – 53
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Town's Proportionate Share of the Net Pension Liability	54
Schedule of Town's Contributions to the Pension Plan	54
Schedule of Funding Progress – Other Postemployment Benefits	55
Schedule of Contribution Funding – Other Postemployment Benefits	55
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	56
Notes to Required Supplementary Information	57
OTHER REPORTS:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	58 – 59



INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Paxton, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Paxton, Massachusetts, (the "Town") as of and for the year ended June 30, 2016 (except for the Paxton Municipal Light Department, which is as of December 31, 2015) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents,

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Paxton Municipal Light Department, a component unit, which represent approximately 64.4%, 62.6% and 79.6%, respectively, of the assets, net position and revenues of the Town's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this blended presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town, as of June 30, 2016, (except for the Paxton Municipal Light Department, which is as of December 31, 2015) and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

We audited the Town's basic financial statements for the year ended June 30, 2015, for which we issued an unmodified opinion dated January 27, 2016. As discussed in Note V to the financial statements, the Paxton Municipal Light Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — An Amendment of GASB Statement No. 27* in calendar year 2015. In connection with the adoption of this accounting standard, previously reported amounts in the Statement of Net Position in the Proprietary Funds and business-type activities in the Statement of Net Position were restated. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of the Town's proportionate share of the net pension liability, its contributions to the pension plan, the Commonwealth's collective share of the MTRS pension plan, the funding progress and contribution funding of other postemployment benefits and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2016, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli, Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts 01801
December 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Paxton, 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.

Financial Highlights

- The Paxton Municipal Light Department ("PMLD") adopted an accounting standard relative to pension obligations in fiscal year 2016. As a result, the Town restated its June 30, 2015 net position in its statement of net position to reduce its business-type activities net position by approximately \$1,386,000.
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$13.4 million (*total net position*). This represented a decrease of approximately \$573,000 from the prior year (as restated). The Town reported a deficit of over \$5,165,000 in its unrestricted net position in its governmental activities at June 30, 2016, primarily as the result of the recording of over \$6,777,000 in long-term obligations associated with other postemployment benefits and pension liabilities.
- The Town reported an aggregate operating loss of over \$43,000 in its water and PMLD enterprise funds in fiscal year 2016. These losses were due primarily to increases in noncash expenses related to other postemployment benefits and retirement benefits.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$2,916,000, which was nearly \$45,000 greater than the prior year. Of the ending fund balance, approximately \$997,000 is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$997,000, or over 8.4% of total fiscal year 2016 general fund expenditures.
- The Town's total general obligation bond and notes payable debt increased by over \$878,000 in fiscal year 2016 to approximately \$8,854,000. In fiscal year 2016, the Town executed two separate borrowings totaling \$1,736,000 and made regular, scheduled repayments on long-term debt of nearly \$858,000.

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 pay).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include water and electric light enterprise funds.

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 three categories: governmental funds, proprietary funds and fiduciary 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 will be 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 of 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.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. 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 in this report.

Proprietary Funds – *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for enterprise funds of the water and electric light activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the 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 and other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Government-Wide Financial Analysis

The condensed comparative statements of net position are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015 (a)	June 30, 2016	June 30, 2015 (a)
<u>Assets</u>						
Current and other assets	\$ 4,748,328	\$ 4,786,310	\$ 5,525,235	\$ 5,301,691	\$ 10,273,563	\$ 10,088,001
Capital assets, net	17,687,922	17,980,181	5,107,339	3,922,520	22,795,261	21,902,701
Total Assets	22,436,250	22,766,491	10,632,574	9,224,211	33,068,824	31,990,702
<u>Deferred Outflows of Resources</u>						
Pensions	477,084	3,000	97,444	97,366	574,528	100,366
Electric light	-	-	460,702	440,314	460,702	440,314
Total Deferred Outflows of Resources	477,084	3,000	558,146	537,680	1,035,230	540,680
<u>Liabilities</u>						
Long-term liabilities	13,481,030	13,251,352	3,075,477	1,641,263	16,556,507	14,892,615
Other liabilities	1,365,402	1,153,316	565,906	556,512	1,931,308	1,709,828
Total Liabilities	14,846,432	14,404,668	3,641,383	2,197,775	18,487,815	16,602,443
<u>Deferred Inflows of Resources</u>						
Electric light	242,595	-	1,924,520	1,907,313	2,167,115	1,907,313
<u>Net Position</u>						
Net investment in capital assets	11,070,037	11,160,200	3,667,322	3,822,519	14,737,359	14,982,719
Restricted	1,919,320	1,678,894	1,082,767	1,071,861	3,002,087	2,750,755
Unrestricted	(5,165,050)	(4,474,271)	874,728	762,423	(4,290,322)	(3,711,848)
Total Net Position	\$ 7,824,307	\$ 8,364,823	\$ 5,624,817	\$ 5,656,803	\$ 13,449,124	\$ 14,021,626

(a) As restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* by the Electric Light enterprise.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's total net position decreased nearly \$573,000, or approximately 4% year-over-year. This decrease was due primarily to a nearly \$541,000 decrease in governmental activities as a result of an increase in noncash pension expense. With the adoption of accounting standards relative to pensions and other postemployment benefits, the unrestricted net position in governmental activities is in a deficit position. The Town reports approximately \$6,777,000 in long-term liabilities associated with other postemployment benefits and pension liabilities in unrestricted net position within its governmental activities. The Town expects to continue reporting deficits in its governmental activities for the foreseeable future.

The largest portion (approximately \$14,737,000) of the Town's overall net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional significant portion of the Town's total net position (approximately \$3,002,000) represents resources that are subject to external restrictions on how they may be used.

The remaining category represents *unrestricted net position*, which currently has a deficit balance of approximately \$4,290,000. Positive net position in business-type activities of nearly \$875,000 is offset by a deficit in the governmental activities of approximately \$5,165,000.

The condensed comparative statements of activities are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,659,796	\$ 1,525,717	\$ 4,550,325	\$ 4,675,750	\$ 6,210,121	\$ 6,201,467
Operating grants and contributions	296,573	293,759	-	-	296,573	293,759
Capital grants and contributions	432,005	363,404	-	-	432,005	363,404
General revenues:						
Property taxes	9,434,759	9,156,723	-	-	9,434,759	9,156,723
Intergovernmental	496,540	534,293	-	-	496,540	534,293
Other	723,403	704,718	26,441	43,247	749,844	747,965
Total revenues	13,043,076	12,578,614	4,576,766	4,718,997	17,619,842	17,297,611
<u>Expenses</u>						
General government	1,058,602	1,067,117	-	-	1,058,602	1,067,117
Public safety	3,898,638	3,539,247	-	-	3,898,638	3,539,247
Education	6,238,040	5,899,601	-	-	6,238,040	5,899,601
Public works	1,544,876	1,401,112	-	-	1,544,876	1,401,112
Health and human services	138,993	127,889	-	-	138,993	127,889
Culture and recreation	364,771	375,799	-	-	364,771	375,799
Debt service	339,672	364,505	-	-	339,672	364,505
Water services	-	-	983,171	781,300	983,171	781,300
Electric Light services	-	-	3,625,581	3,647,898	3,625,581	3,647,898
Total expenses	13,583,592	12,775,270	4,608,752	4,429,198	18,192,344	17,204,468
Change in net position before transfers	(540,516)	(196,656)	(31,986)	289,799	(572,502)	93,143
Transfers	-	-	-	-	-	-
Change in net position	(540,516)	(196,656)	(31,986)	289,799	(572,502)	93,143
Net position - beginning of year	8,364,823	8,561,479	5,656,803	6,753,392	14,021,626	15,314,871
Restatement (a)	-	-	-	(1,386,388)	-	(1,386,388)
Net position, end of year	\$ 7,824,307	\$ 8,364,823	\$ 5,624,817	\$ 5,656,803	\$ 13,449,124	\$ 14,021,626

(a) As restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* by the Electric Light enterprise.

Governmental Activities – Total revenues in fiscal year 2016 in the Town’s governmental activities increased over \$464,000 from the prior fiscal year. The Town’s largest revenue source is property taxes, which represent approximately 72% and 73% of total fiscal year 2016 and 2015 revenues, respectively. Charges for services represented approximately 13% and 12% of total fiscal year 2016 and 2015 revenues, respectively. No other revenue sources were greater than 10% of total revenues in fiscal year 2016 or 2015.

Education represents the largest expense category for the Town. In total, education expenses represented approximately 46% of total fiscal year 2016 and 2015 expenses. Public safety and public works expenses represented approximately 29% and 11% of total fiscal year 2016 expenses, respectively, and were consistent with the prior fiscal year. No other expense types were greater than 10% of total expenses in fiscal years 2016 or 2015.

Business-Type Activities – User charges for water and electric light services represent virtually all of the reported fiscal year 2016 and 2015 revenues in the Town’s business-type activities. Both enterprises reported modest losses from operations in 2016, primarily due to increases in noncash expense associated with pensions and other postemployment benefits.

Government 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 \$2,916,000, which was slightly higher than the prior fiscal year. Of the ending fund balance, nearly \$997,000 is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

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 approximately \$997,000, while total general fund balance reached approximately \$1,181,000. 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 at year end represents over 8.4% of total fiscal year 2016 general fund expenditures, while total fund balance represents approximately 10.0% of that same amount.

The Town’s aggregate nonmajor funds include the Town’s special revenue funds, capital project funds and trust funds.

Proprietary Funds – The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water fund was approximately \$2,105,000 and net position of the electric light fund was approximately \$3,519,000.

Fiduciary Fund – The Town’s fiduciary fund is comprised of the electric light fund’s OPEB trust and agency funds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant. A reconciliation of these differences is found in the required supplementary information.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounts to approximately \$22,795,000, net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$893,000. This increase was a result of current year additions exceeding capital additions.

Additional information on the Town capital assets can be found in the notes to the financial statements.

Long-Term Debt – The Town’s total general obligation bond and notes payable debt increased by over \$878,000 in fiscal year 2016 to approximately \$8,854,000. In fiscal year 2016, the Town executed two separate borrowings totaling \$1,736,000 and made regular, scheduled repayments on long-term debt of nearly \$858,000.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. Debt service from such arrangements is assessed annually to the Town.

Additional information on the Town’s debt can be found in the notes to the financial statements.

Economic Factors and Next Year’s Budgets and Rates

- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2016 are approximately 94.5% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year’s tax levy. The Town typically taxes at or near its levy limit annually.
- The Town’s property values have been steadily rising over the past three years. However, the Town’s 2016 property values remain approximately 9% lower than in 2010. The Town’s median home price is modestly lower than the state-wide average.
- Inflationary trends in the region are consistent with state and national indices.
- The U.S. Bureau of Labor Statistics reported a 3.9% unemployment rate for the Town for June 2016, which is ahead of the 4.3% statewide unemployment rate. Labor markets continue to stabilize within the Town’s local community and nationwide.
- The Town’s median household income is significantly higher than the state-wide and national averages.

The above item were considered when the Town accepted its budget for fiscal year 2017 at the May 2016 Town Meeting. The Town set its tax rate for fiscal year 2017 on December 8, 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 Town Administrator, Town Hall, 697 Pleasant Street, Paxton, Massachusetts 01612.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,856,786	\$ 3,754,399	\$ 5,611,185
Investments	1,029,914	1,004,508	2,034,422
Receivables, net:			
Property taxes	283,553	-	283,553
User fees	-	576,225	576,225
Departmental and other	308,617	-	308,617
Intergovernmental	1,269,458	-	1,269,458
Prepaid expenses	-	82,635	82,635
Materials and supplies	-	107,468	107,468
Land	2,673,115	641,719	3,314,834
Capital assets, net of accumulated depreciation	15,014,807	4,465,620	19,480,427
Total Assets	22,436,250	10,632,574	33,068,824
Deferred Outflows of Resources			
Pensions	477,084	97,444	574,528
Purchased power adjustment	-	20,388	20,388
Purchased power working capital	-	440,314	440,314
Deferred Outflows of Resources	477,084	558,146	1,035,230
Liabilities			
Warrants and accounts payable	290,347	457,067	747,414
Accrued expenses	-	16,665	16,665
Accrued interest	111,805	10,889	122,694
Other liabilities	8,726	-	8,726
Noncurrent liabilities:			
Due within one year	954,524	81,285	1,035,809
Due in more than one year	13,481,030	3,075,477	16,556,507
Total Liabilities	14,846,432	3,641,383	18,487,815
Deferred Inflows of Resources			
Pensions	242,595	3,084	245,679
Unavailable revenue - rate stabilization reserve	-	1,824,647	1,824,647
Unavailable revenue - other	-	96,789	96,789
Deferred Inflows of Resources	242,595	1,924,520	2,167,115
Net Position			
Net investment in capital assets	11,070,037	3,667,322	14,737,359
Restricted:			
Permanent funds	600,854	-	600,854
Capital projects	57,456	-	57,456
Revolving funds	949,252	-	949,252
Gifts and donations	68,303	-	68,303
Depreciation	-	1,082,767	1,082,767
Other purposes	243,455	-	243,455
Unrestricted	(5,165,050)	874,728	(4,290,322)
Total Net Position	\$ 7,824,307	\$ 5,624,817	\$ 13,449,124

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
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	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,058,602	\$ 144,510	\$ 108,619	\$ -	\$ (805,473)		\$ (805,473)
Public safety	3,898,638	1,103,620	99,219	142,858	(2,552,941)		(2,552,941)
Education	6,238,040	-	18,538	-	(6,219,502)		(6,219,502)
Public works	1,544,876	298,348	-	249,516	(997,012)		(997,012)
Health and human services	138,993	27,410	37,040	-	(74,543)		(74,543)
Culture and recreation	364,771	85,908	33,157	-	(245,706)		(245,706)
Interest expense	339,672	-	-	39,631	(300,041)		(300,041)
Total governmental activities	13,583,592	1,659,796	296,573	432,005	(11,195,218)		(11,195,218)
Business-Type activities:							
Water	983,171	928,423	-	-		\$ (54,748)	(54,748)
Electric Light	3,625,581	3,621,902	-	-		(3,679)	(3,679)
Total business-type activities	4,608,752	4,550,325	-	-		(58,427)	(58,427)
Total Primary Government	\$ 18,192,344	\$ 6,210,121	\$ 296,573	\$ 432,005	(11,195,218)	(58,427)	(11,253,645)
<u>General Revenues:</u>							
Property taxes					9,434,759	-	9,434,759
Motor vehicle and other excise taxes					678,748	-	678,748
Intergovernmental					496,540	-	496,540
Penalties and interest on taxes					25,305	-	25,305
Unrestricted investment income					19,350	26,441	45,791
Total general revenues					10,654,702	26,441	10,681,143
Change in Net Position					(540,516)	(31,986)	(572,502)
<u>Net Position:</u>							
Beginning of year (As restated; see Note V)					8,364,823	5,656,803	14,021,626
End of year					\$ 7,824,307	\$ 5,624,817	\$ 13,449,124

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 893,138	\$ 963,648	\$ 1,856,786
Investments	521,136	508,778	1,029,914
Receivables, net of allowance for uncollectibles:			
Property taxes	283,553	-	283,553
Departmental and other	86,869	221,748	308,617
Intergovernmental	953,144	316,314	1,269,458
Total Assets	<u>2,737,840</u>	<u>2,010,488</u>	<u>4,748,328</u>
 Total Deferred Outflows of Resources	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 2,737,840</u></u>	 <u><u>\$ 2,010,488</u></u>	 <u><u>\$ 4,748,328</u></u>
 Liabilities			
Warrants and accounts payable	\$ 237,089	\$ 53,258	\$ 290,347
Other liabilities	8,726	-	8,726
Total Liabilities	<u>245,815</u>	<u>53,258</u>	<u>299,073</u>
 Deferred Inflows of Resources			
Unavailable revenue - property taxes	271,386	-	271,386
Unavailable revenue - intergovernmental	953,144	-	953,144
Unavailable revenue - other	86,869	221,748	308,617
Total Deferred Inflows of Resources	<u>1,311,399</u>	<u>221,748</u>	<u>1,533,147</u>
 Fund Balances			
Nonspendable	-	323,643	323,643
Restricted	-	1,411,839	1,411,839
Committed	154,318	-	154,318
Assigned	29,520	-	29,520
Unassigned	996,788	-	996,788
Total Fund Balances	<u>1,180,626</u>	<u>1,735,482</u>	<u>2,916,108</u>
 Total Liabilities , Deferred Inflows of Resources and Fund Balances	 <u><u>\$ 2,737,840</u></u>	 <u><u>\$ 2,010,488</u></u>	 <u><u>\$ 4,748,328</u></u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Governmental Fund Balances	\$ 2,916,108
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,687,922
Other assets are not available to pay for current-period expenditures and are therefore deferred inflows of financial resources in the funds.	1,533,147
In the statement of net position, interest is accrued on outstanding long-term debt whereas in the governmental funds, interest is not reported until due.	(111,805)
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	(7,409,338)
Capital lease obligations	(161,691)
Compensated absences	(87,268)
Other postemployment benefits	(1,252,457)
Net pension liability	<u>(5,290,311)</u>
Net Position of Governmental Activities	<u><u>\$ 7,824,307</u></u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 9,416,129	\$ -	\$ 9,416,129
Intergovernmental	991,157	464,513	1,455,670
Motor vehicle and other excises	666,124	-	666,124
Licenses and permits	66,544	-	66,544
Penalties and interest on taxes	25,305	-	25,305
Fines and forfeitures	15,603	-	15,603
Investment income	10,066	9,284	19,350
Departmental and other revenue	402,582	1,134,598	1,537,180
Contributions and donations	-	67,862	67,862
Total Revenues	<u>11,593,510</u>	<u>1,676,257</u>	<u>13,269,767</u>
Expenditures			
Current:			
General government	763,490	50,345	813,835
Public safety	1,873,940	1,083,262	2,957,202
Education	5,989,794	-	5,989,794
Public works	887,411	502,719	1,390,130
Health and human services	139,044	17,248	156,292
Culture and recreation	190,277	89,646	279,923
Pension and fringe benefits	783,450	-	783,450
State and county assessments	45,286	-	45,286
Debt service:			
Principal	832,698	-	832,698
Interest	342,284	-	342,284
Total Expenditures	<u>11,847,674</u>	<u>1,743,220</u>	<u>13,590,894</u>
Deficiency of Revenues Over Expenditures	<u>(254,164)</u>	<u>(66,963)</u>	<u>(321,127)</u>
Other Financing Sources (Uses)			
Proceeds from the issuance of long-term debt	-	366,000	366,000
Transfers in	198,698	-	198,698
Transfers out	-	(198,698)	(198,698)
Total Other Financing Sources	<u>198,698</u>	<u>167,302</u>	<u>366,000</u>
Net Change in Fund Balances	(55,466)	100,339	44,873
Fund Balances - Beginning of year	<u>1,236,092</u>	<u>1,635,143</u>	<u>2,871,235</u>
Fund Balances - End of year	<u><u>\$ 1,180,626</u></u>	<u><u>\$ 1,735,482</u></u>	<u><u>\$ 2,916,108</u></u>

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 44,873

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 reflects as reconciling items:

Capital outlays	529,152	
Depreciation expense	(821,411)	
Net effect of reporting capital assets		(292,259)

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 amounts are reflected here as reconciling items:

Issuance of long-term debt	(366,000)	
Repayments of debt and capital lease obligations	866,510	
Net effect of reporting long-term debt		500,510

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.

(226,690)

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:

Accrued interest	2,612	
Compensated absences	(18,662)	
Other postemployment benefits	(243,578)	
Net pension liability	(307,322)	

Net effect of reporting long-term liabilities		(566,950)
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Change in Net Position of Governmental Activities \$ (540,516)

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 413,061	\$ 3,341,338	\$ 3,754,399
Investments	-	1,004,508	1,004,508
User charges receivable, net	161,096	415,129	576,225
Prepaid expenses	-	82,635	82,635
Materials and supplies	-	107,468	107,468
Total current assets	<u>574,157</u>	<u>4,951,078</u>	<u>5,525,235</u>
Noncurrent assets:			
Land	641,400	319	641,719
Capital assets, net of accumulated depreciation	2,567,251	1,898,369	4,465,620
Total noncurrent assets	<u>3,208,651</u>	<u>1,898,688</u>	<u>5,107,339</u>
Total Assets	<u>3,782,808</u>	<u>6,849,766</u>	<u>10,632,574</u>
Deferred Outflows of Resources			
Pensions	6,065	91,379	97,444
Purchased power adjustment	-	20,388	20,388
Purchased power working capital	-	440,314	440,314
Total Deferred Outflows of Resources	<u>6,065</u>	<u>552,081</u>	<u>558,146</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,788,873</u>	<u>\$ 7,401,847</u>	<u>\$ 11,190,720</u>
Liabilities			
Current liabilities:			
Warrants and accounts payable	\$ 95,596	\$ 361,471	\$ 457,067
Accrued expenses	-	16,665	16,665
Retainage payable	-	-	-
Accrued interest	10,889	-	10,889
Compensated absences	867	-	867
Bonds and notes payable	80,418	-	80,418
Total current liabilities	<u>187,770</u>	<u>378,136</u>	<u>565,906</u>
Noncurrent liabilities:			
Compensated absences	1,609	-	1,609
Bonds and notes payable	1,364,582	-	1,364,582
Other postemployment benefits	56,275	117,245	173,520
Net pension liability	70,228	1,465,538	1,535,766
Total noncurrent liabilities	<u>1,492,694</u>	<u>1,582,783</u>	<u>3,075,477</u>
Total Liabilities	<u>1,680,464</u>	<u>1,960,919</u>	<u>3,641,383</u>
Deferred Inflows of Resources			
Pensions	3,084	-	3,084
Customer deposits	-	36,250	36,250
Contribution in aid of construction	-	60,539	60,539
Rate stabilization reserve	-	1,824,647	1,824,647
Total Deferred Inflows of Resources	<u>3,084</u>	<u>1,921,436</u>	<u>1,924,520</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,683,548</u>	<u>3,882,355</u>	<u>5,565,903</u>
Net Position			
Net investment in capital assets	1,768,634	1,898,688	3,667,322
Restricted for depreciation	-	1,082,767	1,082,767
Unrestricted	<u>336,691</u>	<u>538,037</u>	<u>874,728</u>
Total Net Position	<u>\$ 2,105,325</u>	<u>\$ 3,519,492</u>	<u>\$ 5,624,817</u>

(a) As of December 31, 2015.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Operating Revenues			
Charges for services	\$ 928,423	\$ 3,564,631	\$ 4,493,054
Other	-	57,271	57,271
Total Operating Revenues	<u>928,423</u>	<u>3,621,902</u>	<u>4,550,325</u>
Operating Expenses			
Water purchases	512,962	-	512,962
Personnel and other operating costs	379,902	3,449,917	3,829,819
Depreciation	74,976	175,616	250,592
Total Operating Expenses	<u>967,840</u>	<u>3,625,533</u>	<u>4,593,373</u>
Total Operating Income (Loss)	<u>(39,417)</u>	<u>(3,631)</u>	<u>(43,048)</u>
Nonoperating Revenues (Expenses)			
Investment income	200	26,241	26,441
Interest expense	(15,331)	(48)	(15,379)
Other	-	-	-
Total Nonoperating Revenues (Expenses)	<u>(15,131)</u>	<u>26,193</u>	<u>11,062</u>
Change in Net Position	<u>(54,548)</u>	<u>22,562</u>	<u>(31,986)</u>
Net Position - Beginning of Year (b)	<u>2,159,873</u>	<u>3,496,930</u>	<u>5,656,803</u>
Net Position - End of Year	<u>\$ 2,105,325</u>	<u>\$ 3,519,492</u>	<u>\$ 5,624,817</u>

(a) For the year ended December 31, 2015.

(b) Beginning net position for the Electric Light was restated. Refer to Note V.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities		
	Water	Electric Light December 31, 2015	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 943,146	\$ 3,603,672	\$ 4,546,818
Receipts from other operating revenues	-	57,271	57,271
Payments to employees	(145,386)	(787,836)	(933,222)
Payments to vendors	(847,254)	(2,483,144)	(3,330,398)
Net Cash Provided by (Used in) Operating Activities	(49,494)	389,963	340,469
Cash Flows from Noncapital Financing Activities			
Interest expense	-	(48)	(48)
Net Cash Used in Noncapital Financing Activities	-	(48)	(48)
Cash Flows from Capital and Related Financing Activities			
Contribution in aid of construction	-	18,818	18,818
Acquisition and construction of capital assets	(1,222,325)	(214,376)	(1,436,701)
Proceeds from long-term debt issuance	1,370,000		1,370,000
Principal payments on bonds and notes	(25,000)	-	(25,000)
Interest payments on bonds and notes	(4,635)	-	(4,635)
Net Cash Provided by (Used in) Capital and Related Financing Activities	118,040	(195,558)	(77,518)
Cash Flows from Investing Activities			
Investment income	200	21,288	21,488
Investment of operating cash, net	-	(14,775)	(14,775)
Net Cash Provided by Investing Activities	200	6,513	6,713
Net Increase in Cash and Cash Equivalents	68,746	200,870	269,616
Cash and Cash Equivalents			
Beginning of the year	344,315	3,140,468	3,484,783
End of the year	\$ 413,061	\$ 3,341,338	\$ 3,754,399
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Operating Income	\$ (39,417)	\$ (3,631)	\$ (43,048)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	74,976	175,616	250,592
Rate stabilization	-	24,703	24,703
Changes in assets and liabilities:			
Receivables	14,723	52,830	67,553
Prepaid expenses and materials	-	(1,753)	(1,753)
Purchased power adjustments	-	(45,696)	(45,696)
Accounts payable and accrued expenses	(99,776)	187,894	88,118
Net Cash Provided by (Used in) Operating Activities	\$ (49,494)	\$ 389,963	\$ 340,469

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	<u>OPEB Trust Electric Light (a)</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 311,989	\$ 73,880
Total Assets	<u>311,989</u>	<u>73,880</u>
Liabilities		
Escrows and deposits held	<u>-</u>	<u>73,880</u>
Total Liabilities	<u>-</u>	<u>73,880</u>
Net Position		
Held in trust for other postemployment benefits	<u>311,989</u>	<u>-</u>
Total Net Position	<u><u>\$ 311,989</u></u>	<u><u>\$ -</u></u>

(a) As of December 31, 2015.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>OPEB Trust Electric Light (a)</u>
Additions	
Employer contributions	\$ -
Investment income	<u>(3,591)</u>
Total Additions	<u>(3,591)</u>
Change in Net Position	(3,591)
Net Position - beginning of year	<u>315,580</u>
Net Position - end of year	<u><u>\$ 311,989</u></u>

(a) For the year ended December 31, 2015.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, 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 of Paxton (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 government entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town is located in Worcester County, approximately forty-five miles west of the City of Boston and borders the City of Worcester. The Town was incorporated in 1765. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve staggered three-year terms.

The Town provides governmental services for the territory within its boundaries, including public safety, education through a regional school district, public works, health and human services, culture and recreation, general governmental services, water and electricity. The water and electricity services are funded through user charges and treated as business enterprises.

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. The component unit discussed below is included in the Town's reporting entity because of the significance of its operations or financial relationships with the Town.

Paxton Municipal Light Department – Paxton Municipal Light Department, (“PMLD” or “Electric Light”), which provides electrical services to the Town’s inhabitants, is required to be included as a component unit of the Town. PMLD accounts for its operations on a calendar year basis. The net position and results of PMLD’s operations as of and for the year ended December 31, 2015 have been included in the Town’s proprietary funds financial statements. The PMLD issued stand-alone audited financial statements from another auditor, which can be obtained from the PMLD. PMLD is located at 578 Pleasant Street, Paxton Massachusetts 01612.

The Town is a member community of the Wachusett Regional School District, which provides educational services to five 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 assessment was \$5,791,410. 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 at Jefferson School, 1745 Main Street, Jefferson, MA 01522.

In addition, the Town is a member community of the Bay Path Regional Vocational Technical School, which belongs to the Southern Worcester County Regional Vocational School District. This joint venture assesses each of the ten member communities its share of the operational and debt service costs based on student population and other factors. In fiscal year 2016, the Town's assessment was \$198,384. 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 at 57 Old Muggett Hill Road, Charlton, MA 01507.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

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

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

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

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

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

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

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

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

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

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

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary fund:

Water Enterprise Fund – is used to account for the operation of the Town's water activities.

PMLD – is used to account for the operation of the Town's electrical power distribution activities.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The Town reports the following fiduciary funds:

PMLD OPEB Trust Funds – is used to account for trust arrangement established by the PMLD for other postemployment benefits.

Agency Fund – is used to account for assets held in a purely custodial capacity. The Town's agency funds consist primarily of student activities, off-duty work details and escrow and other deposits.

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

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

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

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 measurements 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 presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2016:

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 126,235	\$ 126,235	\$ -	\$ -
U.S. Governmental agency obligations	460,197	460,197	-	-
Corporate bonds	160,287	160,287	-	-
Total debt securities	746,719	746,719	-	-
Equity securities	45,156	45,156	-	-
Mutual funds	238,039	238,039	-	-
Total investments by fair value level	\$ 1,029,914	\$ 1,029,914	\$ -	\$ -

All of the Town's investments were classified in Level 1; each security is traded in an active market. PMLD investments totaling \$1,004,508 were not included in the table above as the PMLD was not required to implement GASB No. 72 in its calendar year 2015 financial statements.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semiannually and are due on October 1 and April 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 and water and user fees are secured through a lien process within sixty days after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – In the case of the Town, inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. With respect to the PMLD, materials and supplies are inventories of parts and accessories purchased for use in PMLD's operations. Materials and supplies inventory are stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

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

Capital Assets – Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, vehicles, software and infrastructure (e.g. roads, sidewalks, water mains, and similar items), are reported in the applicable governmental or business-type activities columns 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$2,000 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 by the Town and the PMLD on a straight-line-basis.

The estimated useful lives of capital assets being depreciated are as follows:

Land improvements	40 years
Buildings and improvements	10 – 50 years
Vehicles, machinery and equipment	5 – 25 years
Infrastructure	15 – 50 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.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its 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. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

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. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable 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 of resources (expense/expenditure) until then. The Town reports deferred outflows of resources in its government-wide financial statements relative to pension-related transactions as well as certain Electric Light transactions. The Town does not report deferred outflows of resources in its governmental funds financial statements.

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 resources (revenue) until that time. The Town reports deferred inflows of resources in its government-wide financial statements relative to certain Electric Light transactions. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial statements

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 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:

Perpetual funds represent both the endowment portion of donor restricted trusts that support governmental programs and the spendable, yet restricted, amount of various trust funds that support governmental programs (i.e., expendable funds).

Capital projects funds represent remaining balances from bond proceeds or other financing sources that are restricted by state law to specific capital purposes and borrowing terms.

Revolving funds represent assets that have been accumulated from specific services not supported by the Town's general appropriation.

Gifts and donations are funds donated to the Town for specific (i.e., restricted) purposes.

Depreciation fund is used by the PMLD to account for cash reserved for plant improvements, decommissioning, contractual commitments and deferred costs related to such commitments that the PLMD board determines are above market value.

Other purposes represent assets that are restricted by donors 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) 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 formal action of the Town's highest level of decision making authority, which is the Town Meeting action, and can be modified or rescinded on through these actions.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed.

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

The following table reflects the Town's fund equity categorizations:

	General	Nonmajor Governmental Funds	Total
Nonspendable:			
Nonexpendable trust funds	\$ -	\$ 323,643	\$ 323,643
Restricted:			
General government	-	205,546	205,546
Public safety	-	403,097	403,097
Education	-	56,002	56,002
Public works	-	23,410	23,410
Health and human services	-	423,624	423,624
Culture and recreation	-	300,160	300,160
Committed:			
General government	154,318	-	154,318
Assigned:			
General government	16,059	-	16,059
Public safety	12,115	-	12,115
Culture and recreation	1,346	-	1,346
Unassigned:			
Stabilization - general	398,819	-	398,819
Stabilization - capital	27,673	-	27,673
Unrestricted	570,296	-	570,296
	<u>\$ 1,180,626</u>	<u>\$ 1,735,482</u>	<u>\$ 2,916,108</u>

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.

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of Town Meeting. The balance of the fund totals \$398,819 at June 30, 2016 and is reported as unassigned fund balance in the general fund. In addition, the Town also maintains a capital stabilization fund which may be used for capital purposes upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$27,673 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 approved by the Town Controller as assigned, and (2) classify encumbrances that result from an action of the Town Council 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 \$29,520 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

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. 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.

Deposits and Investments of the Town (excludes the PMLD)

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2016, \$3,043,449 of the Town's bank deposits were not insured by the Federal Depositary Insurance Corporation ("FDIC"), the Depositors Insurance Fund ("DIF") or other forms of collateralization and was therefore exposed to custodial credit risk.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the 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. All of the Town's investments are registered in its name and cannot be pledged or assigned. The Town is not exposed to custodial credit risk on its investments. The Town does not have a formal investment policy related to custodial credit risk.

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the market value of an investment. The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Town mitigates interest rate risk by managing the duration of its investments.

Concentration of Credit Risk – The Town’s investment policy prohibits any investment (excluding U.S. Treasuries or agencies and State pools) to exceed 10% of the Town’s investments. The Town’s investments in government obligations of federal agencies and in U.S. Treasuries represented approximately 57% of the Town’s total investments at June 30, 2016. There were no other individual investments representing more than 5% of the Town’s total investments.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town’s investment policy seeks to mitigate this risk using a capital preservation strategy. In practice, the Town seeks to purchase investment grade securities with a high concentration of securities rated A or above as determined by credit rating agencies.

Investment Maturities – At June 30, 2016, the Town had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Corporate fixed income securities	\$ 160,287	\$ 30,299	\$ 129,988	\$ -	\$ -
U.S. government obligations	586,432	35,440	124,728	-	-
Total investments with maturities	746,719	<u>\$ 65,739</u>	<u>\$ 254,716</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Other Investments:</u>					
Equities	45,156				
Mutual funds	238,039				
Total Town investments	<u>\$ 1,029,914</u>				

Of the Town’s investments in corporate fixed income, \$30,298 were rated by Moody’s Investors Service (“Moody’s”) as A1, \$65,196 were rated A2, \$44,990 were rated Baa1 and \$19,803 were rated Baa2. In addition, all of the Town’s government securities were rated Aaa by Moody’s. Ratings are not available for the Town’s investments in certificates of deposit, equities or mutual funds.

Deposits and Investments of the PMLD (as of December 31, 2015)

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The PMLD may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The PMLD’s policy for custodial credit risk of deposits is to rely on FDIC and DIF insurance coverage for deposits held at each financial institution. All of the PMLD’s funds are deposited with the Town; accordingly, the amount of depository insurance coverage for the PMLD is included with the Town’s disclosure.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the PMLD will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The PMLD’s policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the PMLD. At December 31, 2015, the PMLD was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Investments – This is the risk that changes in interest rates will adversely affect the market value of an investment. Debt securities are subject to interest rate risk. Debt

securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The PMLD 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: Investments –The PMLD’s investments in government obligations of federal agencies and in U.S. Treasuries represented approximately 55% of the PMLD’s total investments at December 31, 2015. No other individual investment represented more than 5% of the PMLD’s total investments.

Investment Maturities – At December 31, 2015, the PMLD had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Corporate fixed income securities	\$ 447,366	\$ 46,794	\$ 274,472	\$ 126,100	\$ -
U.S. government obligations	557,142	-	341,405	215,737	-
Total PMLD investments	<u>\$ 1,004,508</u>	<u>\$ 46,794</u>	<u>\$ 615,877</u>	<u>\$ 341,837</u>	<u>\$ -</u>

All of the PMLD’s investments in U.S. government obligations were rated AA+ by Standard and Poors Financial Services LLC (“S&P”). Of the PMLD’s investments in corporate fixed income securities, \$57,781 were rated AA+, \$72,405 were rated AA, \$25,579 were rated AA-, \$77,720 were rated A+, \$171,405 were rated A, \$109,421 were rated A-, and \$42,831 were rated BBB+ by S&P.

B. Receivables

Receivables as of June 30, 2016 for the Town’s major governmental funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate taxes	\$ 66,971	\$ -	\$ 66,971
Personal property taxes	995	(321)	674
Tax liens and foreclosures	215,908	-	215,908
Motor vehicle and other excise taxes	98,194	(31,862)	66,332
Departmental and other	227,773	(55,285)	172,488
Title V loan receivables	69,797	-	69,797
Intergovernmental	<u>1,269,458</u>	<u>-</u>	<u>1,269,458</u>
Total	<u>\$ 1,949,096</u>	<u>\$ (87,468)</u>	<u>\$ 1,861,628</u>

Receivables as of June 30, 2016 for the Town's proprietary funds were as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user charges	\$ 156,293	\$ -	\$ 156,293
Due from MCWT - water	4,803	-	4,803
PMLD user charges	415,129	-	415,129
Total	<u>\$ 576,225</u>	<u>\$ -</u>	<u>\$ 576,225</u>

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

	General Fund	Nonmajor Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 55,478	\$ -	\$ 55,478
Tax liens	215,908	-	215,908
Intergovernmental and other	953,144	-	953,144
Motor vehicle and other excise taxes	66,332	-	66,332
Departmental and other	20,537	221,748	242,285
Total	<u>\$ 1,311,399</u>	<u>\$ 221,748</u>	<u>\$ 1,533,147</u>

School Building Assistance Reimbursement – As of June 30, 2016, the Town expects to receive the balance of grants from the Massachusetts School Building Authority of \$1,014,135 for approved school construction costs. These costs are reimbursed to the Town in equal installments over the life of the related bond issues and are subject to appropriation only by the State Legislature. An intergovernmental receivable of \$953,144 has been recorded in the Town's general fund, which is the principal portion of these expected future receipts.

C. Interfund Receivables, Payables and Transfers

During fiscal year 2016, the Town transferred \$191,000 from its ambulance receipts reserved for appropriation fund and \$7,698 from its Title V revolving account to its general fund.

D. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,673,115	\$ -	\$ -	\$ 2,673,115
Capital assets being depreciated:				
Buildings and improvements	21,951,467	59,000	-	22,010,467
Infrastructure	2,381,579	-	-	2,381,579
Machinery and equipment	1,079,320	33,133	-	1,112,453
Vehicles	3,328,728	530,019	(93,000)	3,765,747
Total capital assets being depreciated	28,741,094	622,152	(93,000)	29,270,246
Less accumulated depreciation for:				
Buildings and improvements	(9,698,280)	(469,432)	-	(10,167,712)
Infrastructure	(804,951)	(147,064)	-	(952,015)
Machinery and equipment	(706,176)	(77,576)	-	(783,752)
Vehicles	(2,224,621)	(220,339)	93,000	(2,351,960)
Total accumulated depreciation	(13,434,028)	(914,411)	93,000	(14,255,439)
Total capital assets being depreciated, net	15,307,066	(292,259)	-	15,014,807
Total governmental activities capital assets, net	\$ 17,980,181	\$ (292,259)	\$ -	\$ 17,687,922
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 641,719	\$ -	\$ -	\$ 641,719
Construction in-process	142,873	-	(142,873)	-
Total capital assets not being depreciated	784,592	-	(142,873)	641,719
Capital assets being depreciated:				
Electric plant	5,896,840	214,376	(161,710)	5,949,506
Buildings and improvements	689,100	-	-	689,100
Infrastructure	2,961,244	1,365,198	-	4,326,442
Machinery and equipment	30,929	-	-	30,929
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	9,604,533	1,579,574	(161,710)	11,022,397
Less accumulated depreciation for:				
Electric plant	(4,035,941)	(176,906)	161,710	(4,051,137)
Buildings and improvements	(350,433)	(31,365)	-	(381,798)
Infrastructure	(2,029,960)	(41,512)	-	(2,071,472)
Machinery and equipment	(25,739)	(212)	-	(25,951)
Vehicles	(24,532)	(1,887)	-	(26,419)
Total accumulated depreciation	(6,466,605)	(251,882)	161,710	(6,556,777)
Total capital assets being depreciated, net	3,137,928	1,327,692	-	4,465,620
Total business-type activities capital assets, net	\$ 3,922,520	\$ 1,327,692	\$ (142,873)	\$ 5,107,339

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities: Water</i></u>				
Capital assets not being depreciated:				
Land	\$ 641,400	\$ -	\$ -	\$ 641,400
Construction in-process	142,873	-	(142,873)	-
Total capital assets not being depreciated	784,273	-	(142,873)	641,400
Capital assets being depreciated:				
Buildings and improvements	689,100	-	-	689,100
Infrastructure	2,961,244	1,365,198	-	4,326,442
Machinery and equipment	30,929	-	-	30,929
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	3,707,693	1,365,198	-	5,072,891
Less accumulated depreciation for:				
Buildings and improvements	(350,433)	(31,365)	-	(381,798)
Infrastructure	(2,029,960)	(41,512)	-	(2,071,472)
Machinery and equipment	(25,739)	(212)	-	(25,951)
Vehicles	(24,532)	(1,887)	-	(26,419)
Total accumulated depreciation	(2,430,664)	(74,976)	-	(2,505,640)
Total capital assets being depreciated, net	1,277,029	1,290,222	-	2,567,251
Total Water capital assets, net	\$ 2,061,302	\$ 1,290,222	\$ (142,873)	\$ 3,208,651
	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities: PMLD</i></u>				
Capital assets not being depreciated:				
Land	\$ 319	\$ -	\$ -	\$ 319
Capital assets being depreciated:				
Distribution plant	4,673,833	108,323	(17,090)	4,765,066
General plant	1,223,007	106,053	(144,620)	1,184,440
Total capital assets being depreciated	5,896,840	214,376	(161,710)	5,949,506
Less accumulated depreciation for:				
Distribution plant	(3,322,985)	(140,216)	17,090	(3,446,111)
General plant	(712,956)	(36,690)	144,620	(605,026)
Total accumulated depreciation	(4,035,941)	(176,906)	161,710	(4,051,137)
Total capital assets being depreciated, net	1,860,899	37,470	-	1,898,369
Total PMLD capital assets, net	\$ 1,861,218	\$ 37,470	\$ -	\$ 1,898,688

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 13,814	Water	\$ 74,976
Public safety	377,637	PMLD	176,906
Education	238,707		<u>\$ 251,882</u>
Public works	249,343		
Health and human services	7,535		
Culture and recreation	27,375		
	<u>\$ 914,411</u>		

E. Purchased Power Working Capital

The PMLD is a member and participant of the Massachusetts Municipal Wholesale Electric Company (“MMWEC”). The purchased power working capital is an amount held by MMWEC as an escrow. The purchased power working capital fund is replenished as needed from the PMLD’s monthly invoice payments. The income earned from the purchased power working capital fund applicable to the PMLD’s deposit is applied as a credit to MMWEC’s power sales billings. The balance in the purchased power working capital funds as of December 31, 2015 is \$440,314 and is reported as a deferred outflow of resources.

F. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or grant anticipation notes. 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 borrowings are accounted for in the general fund and enterprise funds, respectively. The Town did not have any temporary borrowings during fiscal year 2016.

G. Long-term Obligations

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

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

designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2016 was approximately \$23 million based on an equalized valuation of over \$458 million.

The following reflects the current year activity (the PMLD’s activity is for the year ended December 31, 2015) in the long-term liability accounts:

Description of Issue	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 7,876,036	\$ 366,000	\$ (832,698)	\$ 7,409,338	\$ 888,697
Capital lease obligations	195,503	-	(33,812)	161,691	35,283
Compensated absences	68,606	18,662	-	87,268	30,544
Other postemployment benefits	1,008,879	309,179	(65,601)	1,252,457	-
Net pension liability	4,985,989	889,307	(350,496)	5,524,800	-
Total Governmental Activities	<u>\$ 14,135,013</u>	<u>\$ 1,583,148</u>	<u>\$ (1,282,607)</u>	<u>\$ 14,435,554</u>	<u>\$ 954,524</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds and notes payable	\$ 100,000	\$ 1,370,000	\$ (25,000)	\$ 1,445,000	\$ 80,418
Compensated absences	1,140	1,336	-	2,476	867
Other postemployment benefits	45,331	13,892	(2,948)	56,275	-
Net pension liability	62,583	11,738	(4,093)	70,228	-
Total Water	<u>209,054</u>	<u>1,396,966</u>	<u>(32,041)</u>	<u>1,573,979</u>	<u>81,285</u>
<i>Business-Type Activities - PMLD:</i>					
Other postemployment benefits	26,625	108,358	(17,738)	117,245	-
Net pension liability (a)	1,430,869	125,167	(90,498)	1,465,538	-
Total PMLD	<u>1,457,494</u>	<u>233,525</u>	<u>(108,236)</u>	<u>1,582,783</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 1,666,548</u>	<u>\$ 1,630,491</u>	<u>\$ (140,277)</u>	<u>\$ 3,156,762</u>	<u>\$ 81,285</u>

(a) Prior year balance is a restatement as a result of the implementation of GASB Statement No. 68. The Town adopted this accounting standard in fiscal year 2015.

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the water and PMLD enterprise funds.

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

Description of Issue	Interest Rates	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.50 - 5.00%	\$ 7,830,000	\$ 366,000	\$ (825,000)	\$ 7,371,000
MCWT notes payable	4.50 - 5.63%	46,036	-	(7,698)	38,338
Total Governmental Activities		<u>\$ 7,876,036</u>	<u>\$ 366,000</u>	<u>\$ (832,698)</u>	<u>\$ 7,409,338</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds	3.97 - 4.65	\$ 100,000	\$ -	\$ (25,000)	\$ 75,000
MCWT notes payable	2.00%	-	1,370,000	-	1,370,000
Total Water		<u>100,000</u>	<u>1,370,000</u>	<u>(25,000)</u>	<u>1,445,000</u>
Total Business-Type Activities		<u>\$ 100,000</u>	<u>\$ 1,370,000</u>	<u>\$ (25,000)</u>	<u>\$ 1,445,000</u>

Payments on outstanding general obligation bonds and notes payable due in future years consist of the following:

Year Ending	Principal			Interest			
June 30,	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy	Total
<i>Governmental Activities</i>							
2017	\$ 888,697	\$ -	\$ 888,697	\$ 316,105	\$ (1,883)	\$ 314,222	\$ 1,202,919
2018	887,698	-	887,698	279,575	(1,450)	278,125	1,165,823
2019	882,697	-	882,697	239,678	(1,017)	238,661	1,121,358
2020	522,697	-	522,697	199,871	(796)	199,075	721,772
2021	522,549	-	522,549	179,883	-	179,883	702,432
2022-2026	1,990,000	-	1,990,000	629,262	-	629,262	2,619,262
2027-2031	815,000	-	815,000	267,614	-	267,614	1,082,614
2032-2036	250,000	-	250,000	175,000	-	175,000	425,000
2037-2041	250,000	-	250,000	120,312	-	120,312	370,312
2042-2046	250,000	-	250,000	65,625	-	65,625	315,625
2047-2049	150,000	-	150,000	13,125	-	13,125	163,125
Total	<u>\$ 7,409,338</u>	<u>\$ -</u>	<u>\$ 7,409,338</u>	<u>\$ 2,486,050</u>	<u>\$ (5,146)</u>	<u>\$ 2,480,904</u>	<u>\$ 9,890,242</u>
<i>Business-Type Activities- Entirely Water</i>							
2017	\$ 80,418	\$ -	\$ 80,418	\$ 28,901	\$ -	\$ 28,901	\$ 109,319
2018	81,622	-	81,622	28,614	-	28,614	110,236
2019	82,853	-	82,853	26,321	-	26,321	109,174
2020	59,110	-	59,110	24,002	-	24,002	83,112
2021	60,395	-	60,395	22,820	-	22,820	83,215
2022-2026	322,245	-	322,245	95,448	-	95,448	417,693
2027-2031	358,816	-	358,816	61,792	-	61,792	420,608
2032-2036	399,541	-	399,541	24,316	-	24,316	423,857
	<u>\$ 1,445,000</u>	<u>\$ -</u>	<u>\$ 1,445,000</u>	<u>\$ 312,214</u>	<u>\$ -</u>	<u>\$ 312,214</u>	<u>\$ 1,757,214</u>

At June 30, 2016, no amounts were authorized and unissued for additional borrowings.

The Town is party to several non-cancellable leases for the purchase of an ambulance and a front-end loader. For financial reporting purposes, these leases are accounted for as capital leases. The future minimum lease payments on these capital lease obligations and the net present value of these minimum lease payments as of June 30, 2016 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2017	\$ 42,023
2018	42,023
2019	42,023
2020	27,028
2021	<u>27,029</u>
Total minimum lease payments	180,126
Less amount representing interest	<u>(18,435)</u>
Present value of minimum lease payments	<u>\$ 161,691</u>

Assets acquired through capital leases are as follows:

<u>Asset Description</u>	<u>Amount</u>
Front end loader	\$ 230,000
Ambulance	146,900
Less accumulated depreciation	<u>(250,400)</u>
Net carrying value	<u>\$ 126,500</u>

III. Other Information

A. Retirement Systems

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 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-seven employers as of December 31, 2015 was as follows:

Active members	6,773
Inactive members entitled to, but not receiving benefits	1,925
Inactive members (or beneficiaries) currently receiving benefits	<u>3,382</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. 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 of 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 Board 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 \$455,087 to the Retirement System in fiscal year 2015, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 17% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$7,060,566 for its proportionate share of the net pension liability. The net pension liability reported by the Retirement System at December 31, 2015 (used for fiscal year-end June 30, 2016) is \$7,022,753. The difference between these two figures is attributable to the difference in fiscal year ends between the Town and the PMLD, which results in a one-year lag.

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. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. 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 and PMLD's proportion was approximately 0.99% at December 31, 2015 versus 1.05% at December 31, 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 \$915,315 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	206,866	-
Net difference between projected and actual earnings on pension plan investments	277,164	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	245,679
Contributions subsequent to the measurement date	90,498	-
	<u>\$ 574,528</u>	<u>\$ 245,679</u>

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

<u>Year ended June 30,</u>		
2017	\$	75,517
2018		75,517
2019		75,515
2020		75,040
2021		27,260
	\$	<u>328,849</u>

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

Inflation:	Not explicitly assumed for the update to December 31, 2015 (3.5% per year for the actuarial valuation as of January 1, 2014).
Salary increased:	3.0% per year, including longevity.
Investment rate of return:	8.0%, net of pension plan investment expense, including inflation.
Mortality rates:	Based on the RP-2000 Mortality Table projected to 2014 with Scale AA.
Disabled life mortality:	For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global equity	40 %	8.02 %
Fixed income	23 %	5.09 %
Private equity	10 %	9.50 %
Real estate	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 liability was 7.75%, which is a reduction from the previous 8.0% discount rate. 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 in accordance with Sections 22D and 22F of Chapter 32 of MGL. 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 (inclusive of the PMLD) 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 (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town's proportionate share of the net pension liability	\$ 8,455,493	\$ 7,060,566	\$ 5,806,189

B. Other Postemployment Benefits (OPEB)

Plan Description – The Town administers a single-employer defined benefit healthcare plan (the “Plan”). The Plan provides medical insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s self-funded insurance program described previously. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 39 active employees and 13 retired employees for a total of 52 participants.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town, through negotiation with the Town employee unions. Retirees currently contribute 60% of the costs for medical insurance; the Town pays the remainder.

The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost is calculated based on the annual required contribution, or ARC, of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity surrounding the Town’s OPEB obligation:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution ("ARC")	\$ 320,906	\$ 122,800	\$ 443,706
Interest on net OPEB obligation	40,355	3,144	43,499
Adjustment to ARC	<u>(52,082)</u>	<u>(3,694)</u>	<u>(55,776)</u>
Annual OPEB cost	309,179	122,250	431,429
Contributions made	<u>(65,601)</u>	<u>(20,686)</u>	<u>(86,287)</u>
Increase in net OPEB obligation	243,578	101,564	345,142
Net OPEB obligation - beginning of year	<u>1,008,879</u>	<u>71,956</u>	<u>1,080,835</u>
Net OPEB obligation - end of year	<u>\$ 1,252,457</u>	<u>\$ 173,520</u>	<u>\$ 1,425,977</u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost (AOPEBC)	Percent of AOPEBC Contributed	Net OPEB Obligation
June 30, 2016	\$ 431,429 *	20.0%	\$ 1,425,977
June 30, 2015	392,670	51.5%	1,080,835
June 30, 2014	437,668	22.0%	890,344

* Reflected in the statement of activities by functional program as follows:

General Government \$44,897; Public Safety \$199,321; Public Works \$40,826; Health and Human Services \$7,807; Culture and Recreation \$16,328; Water \$13,892; and PMLD \$108,358.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2016, based on the most recent actuarial valuation performed as of July 1, 2015, was as follows:

Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
\$ 311,989	\$ 3,919,974	\$ 3,607,985	8.0%	\$ 2,703,830	133.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

Valuation date:	July 1, 2015
Actuarial cost method	Entry age normal actuarial cost method
Amortization method	30 years, level dollar
Investment rate of return:	4.0%
Projected salary increases:	2.0 %
Healthcare/Medical cost trend rate:	5.0% in years 1 and 2; increasing by 1.0% to an ultimate rate of 6.0% per year

C. Risk Financing

The Town is exposed to various risks of loss related to general liability; 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.

The PMLD participates in the Massachusetts Municipal Utility Self-Insurance Trust Fund (the “Trust”) with seventeen other Massachusetts municipalities for the purpose of sharing excess liability and officers’ liability risks. General liability coverage provides for \$500,000 per occurrence, with a \$50,000 deductible. Environmental insurance coverage provides for \$1,500,000 per occurrence, with a \$100,000 deductible. Each participating municipality contributes to the Trust based on its share of the group’s total kilowatt-hour sales. Payments for claims over the deductible limit are funded by Trust assets or, if required, additional contributions

from the participants. The PMLD does not present estimated claims incurred but not reported as of December 31, 2015 as its pro rata share of these costs is not material to its financial statements.

D. Commitments and Contingencies

General – During its day-to-day operations, the Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters in these situations cannot be reasonably estimated. Although the amount of liability, if any, in these situations at June 30, 2016, cannot be determined, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2016.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). All of these cases pertain to the telephone and telegraph companies, who have challenged their assessed values of personal property. In total, the Town believes that its maximum exposure to these claims is approximately \$68,000 at June 30, 2016. However, as the outcome of these cases cannot be determined (or even estimated), no provision has been made in the Town’s basic financial statements.

Grants – Other 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.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town does not believe it has failed to comply with any of these agreements.

MMWEC Participation – The PMLD is a participant in certain projects of the MMWEC.

MMWEC is a public corporation and a political subdivision of the Commonwealth, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (“Projects”). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (“Project Capability”) of each of its Projects to its Members and other utilities (“Project Participants”) under Power Sales Agreements (“PSAs”). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC’s costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC’s debt service to be paid into a Reserve and Contingency Fund.

In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

PMLD has entered into PSAs and Power Purchase Agreements (“PPAs”) with MMWEC. Under both the PSAs and PPAs, the PMLD is required to make certain payments to MMWEC payable solely from PMLD revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

Berkshire Wind Cooperative – The PMLD is a member of the Berkshire Wind Cooperation Corporation (the “Cooperative”). The Cooperative was formed by the MMWEC and fourteen municipal light departments (the “Members”) for the purpose of financing, owning, constructing and operating certain wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (“Berkshire Wind Facility”).

The Cooperative has constructed ten 1.5-megawatt wind turbines at the Berkshire Wind Facility. The Cooperative provides wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility.

MMWEC sells all of the capability of the Berkshire Wind Facility (“Capability”) to the Members under PPAs. Among other things, the PPAs require each Member to pay its pro rata share of the costs related to the Berkshire Wind Facility, which costs include debt service on the bonds issued by the Cooperative to finance the Berkshire Wind Facility, plus 10% of the debt service to be paid into a Reserve and Contingency Fund. In addition, should a Member fail to make any payment when due, other cooperative members may be required to increase (step-up) their payments and correspondingly their share of the Capability to an additional amount.

The Cooperative has issued revenue bonds, which are payable solely from, and secured solely by, the revenues derived from the Berkshire Wind Facility. The revenues are used solely to provide for the payment of any bond issue relating to the Berkshire Wind Facility and to pay the Cooperative’s cost of owning and operating the Berkshire Wind Facility.

The PMLD has entered into a PPA with the Cooperative. Under the PPA, each participant is unconditionally obligated to make all payments due to the Cooperative, whether or not the Berkshire Wind Facility is completed or operating, and notwithstanding the suspension or interruption of the output of the Berkshire Wind Facility. In addition, under the PPA, the PMLD is required to pay to the Cooperative its share of the operation and maintenance costs of the Berkshire Wind Facility.

As of December 31, 2015, total capital expenditures for the Berkshire Wind Facility amounted to \$59,081,577, of which \$2,489,000 presents the amount associated with the PMLD’s share of the Capability of the Berkshire Wind Facility, of which it is a Member, although such amount is not allocated to the PMLD. The Cooperative’s debt outstanding for the Berkshire Wind Facility includes bonds totaling \$55,420,000, of which \$2,334,000 is associated with the PMLD’s share of Capability of the Berkshire Wind Facility of which it is a Member, although such amount is not allocated to the PMLD.

As of December 31, 2015, the Cooperative's total future debt service requirement on outstanding bonds issued for certain projects of the MMWEC (the “Projects”) is \$80,988,000, of which \$3,411,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of the PMLD required payments under the PSA, exclusive of the Reserve and Contingency Fund billings, to the Cooperative at December 31, 2015 and estimated for future years is as follows:

<u>For Years Ending December 31,</u>	
2016	\$ 228,000
2017	228,000
2018	228,000
2019	227,000
2020	227,000
2021 to 2025	1,137,000
2026 to 2030	<u>1,136,000</u>
	<u>\$ 3,411,000</u>

MMWEC Commitments and Litigation – Through membership in MMWEC, the PMLD is contingently liable on the various projects in which they participate as detailed below.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. ("DNCF"), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCF also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC ("NextEra Seabrook") the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (the "Act"). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

As of December 31, 2015, total capital expenditures for MMWEC's Projects amounted to \$1,626,959,000, of which \$11,782,000 represents the amount associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$112,510,000, of which \$809,000 is associated with the PMLD's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the PMLD. As of December 31, 2015, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$151,353,000, of which \$876,000 is anticipated to be billed to the PMLD in the future.

The estimated aggregate amount of PMLD's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2015 and estimated for future years is shown below.

<u>For Years Ending December 31,</u>	<u>Annual Costs</u>
2016	\$ 433,000
2017	354,000
2018	25,000
2019	<u>64,000</u>
	<u>\$ 876,000</u>

In addition, under the PSAs, the PMLD is required to pay to MMWEC its share of the operation and maintenance costs of the Projects in which it participates. The PMLD's total operation and maintenance costs, including debt service, under the PSAs was \$1,196,000 for the year ended December 31, 2015.

Other Power Supply – The PMLD has entered into an All Requirements Bulk Power Sales Agreement (the "All Requirements Agreement") with MMWEC, under which MMWEC provides, delivers and sells all electric power and energy to PMLD, whether through owned generation, purchased power contracts or other power supply arrangements. Under the terms of the All Requirements Agreement, the PMLD is committed to purchase additional power through the MMWEC in the amount of \$212,762 in 2016, \$160,524 in 2017, \$127,415 in 2018, \$125,308 in 2019 and \$68,798 in 2020.

IV. Implementation of GASB Pronouncements

A. 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, 2106 (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.

B. Future Year 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 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. 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.

V. Restatement

The following tables illustrate the restatement made to the net position reported in the proprietary funds and the business-type activities in the government-wide financial statements as a result of the adoption of GASB Statement No. 68 by the PMLD:

	Water	Electric Light (a)	Total
Net position at June 30, 2015, as previously reported	\$ 2,159,873	\$ 4,883,318	\$ 7,043,191
Record net pension liability	<u>-</u>	<u>(1,386,388)</u>	<u>(1,386,388)</u>
Net position at June 30, 2015, as restated	<u>\$ 2,159,873</u>	<u>\$ 3,496,930</u>	<u>\$ 5,656,803</u>

(a) As of December 31, 2014.

* * * * *

TOWN OF PAXTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2016

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended December 31,	
	2015	2014
Town's proportion of the net pension liability (asset)	0.989389%	1.051696%
Town's proportionate share of the net pension liability (asset)	\$ 7,061	\$ 6,258
Town's covered-employee payroll	\$ 2,610	\$ 2,509
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	270.5%	249.4%
Plan fiduciary net position as a percentage of the total pension liability	44.52%	47.94%

SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	Year Ended December 31,	
	2015	2014
Actuarially determined contribution	\$ 445	\$ 416
Contributions in relation to the actuarially determined contribution	<u>445</u>	<u>416</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,610	\$ 2,509
Contributions as a percentage of covered-employee payroll	17.0%	16.6%

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 auditor's report.

TOWN OF PAXTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2016**

SCHEDULES OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2015	\$ 311,989	\$ 3,919,974	\$ 3,607,985	8.0%	\$ 2,703,830	133.4%
7/1/2012	163,814	3,938,766	3,774,952	4.2%	2,651,331	142.4%
7/1/2009	163,814	1,511,107	1,347,293	10.8%	2,583,370	52.2%

SCHEDULES OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2016	\$ 431,429	\$ 86,287	20.0%
2015	392,670	82,179	20.9%
2014	437,668	77,731	17.8%

See accompanying independent auditor's report.

TOWN OF PAXTON, MASSACHUSETTS

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

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
Revenues						
Real estate and personal property	\$ 9,388,630	\$ 9,388,630	\$ 9,477,770		\$ 9,477,770	\$ 89,140
Intergovernmental	956,614	956,614	991,157		991,157	34,543
Motor vehicle and other excises	635,500	635,500	666,124		666,124	30,624
Licenses and permits	58,000	58,000	66,544		66,544	8,544
Departmental and other revenue	422,605	422,605	402,582		402,582	(20,023)
Penalties and interest	24,000	24,000	25,305		25,305	1,305
Fines and forfeitures	10,000	10,000	15,603		15,603	5,603
Investment income	4,800	4,800	5,637		5,637	837
Total Revenues	<u>11,500,149</u>	<u>11,500,149</u>	<u>11,650,722</u>		<u>11,650,722</u>	<u>150,573</u>
Expenditures						
General government	876,783	876,783	763,490	\$ 16,059	779,549	97,234
Public safety	1,901,074	1,901,074	1,873,940	12,115	1,886,055	15,019
Education	5,989,794	5,989,794	5,989,794	-	5,989,794	-
Public works	950,067	950,067	887,411	-	887,411	62,656
Health and human services	149,545	149,545	139,044	-	139,044	10,501
Culture and recreation	200,704	200,704	190,277	1,346	191,623	9,081
Fringe and pension benefits	841,492	841,492	783,450	-	783,450	58,042
State and county tax assessments	45,286	45,286	45,286	-	45,286	-
Debt service	1,174,982	1,174,982	1,174,982	-	1,174,982	-
Total Expenditures	<u>12,129,727</u>	<u>12,129,727</u>	<u>11,847,674</u>	<u>\$ 29,520</u>	<u>11,877,194</u>	<u>252,533</u>
Other Financing Sources (Uses)						
Transfers in	285,540	285,540	300,540		300,540	(15,000)
Transfers out	-	-	-		-	-
Total Other Financing Sources (Uses)	<u>285,540</u>	<u>285,540</u>	<u>300,540</u>		<u>300,540</u>	<u>(15,000)</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(344,038)</u>	<u>(344,038)</u>	<u>\$ 103,588</u>		<u>\$ 74,068</u>	<u>\$ 388,106</u>
Other Budgetary Items:						
Prior year encumbrances	22,109	22,109				
Free cash	290,173	290,173				
Overlay release	40,000	40,000				
Other	(8,244)	(8,244)				
Total Other Budgetary Items	<u>344,038</u>	<u>344,038</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

TOWN OF PAXTON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2016

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund and each enterprise fund. Financial orders are initiated by the Town Administrator, recommended by the Town Finance Committee and approved by Town Meeting. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. 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			\$ 11,650,722
Stabilization revenue	\$ -	\$ 4,429	4,429
Change in accruing revenues to GAAP basis	(61,641)	-	(61,641)
Revenues on a GAAP basis	<u>\$ (61,641)</u>	<u>\$ -</u>	<u>\$ 11,593,510</u>
Other financing sources (uses) on a budgetary basis			\$ 300,540
Stabilization transfers	\$ -	\$ (101,842)	(101,842)
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ (101,842)</u>	<u>\$ 198,698</u>

Expenditures were the same on both a budgetary-basis and GAAP-basis and therefore no reconciliation is presented above.



**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 Paxton, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Paxton, Massachusetts (the "Town"), as of and for the year ended June 30, 2016 (except for the Paxton Municipal Light Department, which is as of December 31, 2015), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 15, 2016

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 15, 2016