

TOWN OF PAXTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2017

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2017

TOWN OF PAXTON, MASSACHUSETTS

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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, 2017 (except for the Paxton Municipal Light Department, which is as of December 31, 2016) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents,

Management's Responsibility for the Financial Statements

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

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 66.6%, 61.4% and 79.7%, 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.

Basis for Qualified Opinion

Management of the Paxton Municipal Light Department, which is a blended component unit of the Town audited by other auditors, has reported its December 31, 2016 portion of the net pension liability (“NPL”) based on reports provided by the Worcester Regional Retirement System (“WRRS”) that are not in compliance with GASB standards. These standards require the NPL be reported using actuarial data that is no more than thirty months and one day old. The WRRS provided NPL information using data from an actuarial valuation dated January 1, 2014. The amount by which this departure would affect the assets, liabilities, fund balance and revenues of the Sterling Municipal Light Department has not been determined.

Qualified Opinion

In our opinion, except for effects of the matter described in the “Basis for Qualified Opinion” paragraph and 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, 2017, (except for the Paxton Municipal Light Department, which is as of December 31, 2016) 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.

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 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 February 15, 2018, 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
February 15, 2018

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, 2017. 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 assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$13.0 million (*total net position*). This represented a decrease of approximately \$495,000 from the prior year. Governmental activities reported a decrease in net position of approximately \$228,000 while an approximate \$267,000 decrease was reported in the Town's business-type activities.
- Included in the Town's governmental activities in fiscal year 2017 were non-cash personnel expenses related to pension and other postemployment benefits ("OPEB") obligations which produced a net decrease in net position. In its business-type activities, the Town's water fund produced an approximate \$36,000 net decrease in net position while the Paxton Municipal Light Department, or PMLD, reported a net decrease in net position of nearly \$231,000.
- The Town reported a deficit of over \$5.4 million in its unrestricted net position in its governmental activities at June 30, 2017, primarily as the result of the recording of nearly \$8.0 million in long-term obligations associated with other postemployment and pension benefits.
- At the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$3.2 million, which was nearly \$258,000 greater than the prior year. Of the ending fund balance, approximately \$1,255,000 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 \$1.3 million, which represented approximately 10.3% of total fiscal year 2017 general fund expenditures.
- The Town's total general obligation bond and notes payable debt decreased by over \$969,000 in fiscal year 2017 to approximately \$7.9 million. This decrease was due entirely to the normal, scheduled repayment of long-term general obligations and notes payable.
- The Town will adopt a new accounting standard in fiscal year 2018 relative to OPEB. The Town will be required to present in its government-wide and water enterprise proprietary fund financial statements its net OPEB *liability* (the PMLD will adopt this accounting standard in the following fiscal year). Under the current accounting standards, the Town presents its net OPEB *obligation* in the government-wide and proprietary fund financial statements, which at June 30, 2017 was significantly lower than its forecasted net OPEB *liability*. The adoption of this accounting standard, like the Town's adoption of the pension accounting standard in fiscal year 2015, will have a material impact on the Town's unrestricted net position in the affected financial statements. The Town expects to restate beginning balances in its fiscal 2018 financial statements as a result of the implementation of this accounting standard.

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 two individual governmental funds – the general fund and other nonmajor 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, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Assets</u>						
Current and other assets	\$ 4,795,340	\$ 4,748,328	\$ 5,757,865	\$ 5,525,235	\$ 10,553,205	\$ 10,273,563
Capital assets, net of accumulated depreciation	17,091,651	17,687,922	5,081,555	5,107,339	22,173,206	22,795,261
Total Assets	21,886,991	22,436,250	10,839,420	10,632,574	32,726,411	33,068,824
<u>Deferred Outflows of Resources</u>						
Pensions	1,053,620	477,084	236,644	97,444	1,290,264	574,528
Electric Light	-	-	7,328	460,702	7,328	460,702
Total Deferred Outflows of Resources	1,053,620	477,084	243,972	558,146	1,297,592	1,035,230
<u>Liabilities</u>						
Long-term liabilities	13,792,426	13,481,030	3,030,497	3,075,477	16,822,923	16,556,507
Other liabilities	1,359,173	1,365,402	546,865	565,906	1,906,038	1,931,308
Total Liabilities	15,151,599	14,846,432	3,577,362	3,641,383	18,728,961	18,487,815
<u>Deferred Inflows of Resources</u>						
Pensions	192,775	-	225,732	-	418,507	-
Electric Light	-	242,595	1,922,461	1,924,520	1,922,461	2,167,115
Total Deferred Inflows of Resources	192,775	242,595	2,148,193	1,924,520	2,340,968	2,167,115
<u>Net Position</u>						
Net investment in capital assets	11,130,746	11,070,037	3,721,776	3,667,322	14,852,522	14,737,359
Restricted	1,894,886	1,919,320	1,124,000	1,082,767	3,018,886	3,002,087
Unrestricted	(5,429,395)	(5,165,050)	512,061	874,728	(4,917,334)	(4,290,322)
Total Net Position	\$ 7,596,237	\$ 7,824,307	\$ 5,357,837	\$ 5,624,817	\$ 12,954,074	\$ 13,449,124

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 \$495,000, or approximately 4% year-over-year. This decrease was due primarily to a nearly \$228,000 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 \$8.0 million in long-term liabilities associated with other postemployment and pension benefits 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 \$14.9 million) 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, 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 \$3.0 million) 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 \$4,917,000. Positive net position in business-type activities of nearly \$512,000 is offset by a deficit in the governmental activities of approximately \$5,429,000.

The condensed comparative statements of activities are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,683,896	\$ 1,659,796	\$ 4,359,750	\$ 4,550,325	\$ 6,043,646	\$ 6,210,121
Operating grants and contributions	229,912	296,573	1,853	-	231,765	296,573
Capital grants and contributions	166,895	432,005	-	-	166,895	432,005
General revenues:						
Property taxes	9,964,421	9,434,759	-	-	9,964,421	9,434,759
Intergovernmental	527,568	496,540	-	-	527,568	496,540
Other	747,053	723,403	31,551	26,441	778,604	749,844
Total revenues	13,319,745	13,043,076	4,393,154	4,576,766	17,712,899	17,619,842
<u>Expenses</u>						
General government	1,059,775	1,058,602	-	-	1,059,775	1,058,602
Public safety	3,932,762	3,898,638	-	-	3,932,762	3,898,638
Education	6,343,931	6,238,040	-	-	6,343,931	6,238,040
Public works	1,369,785	1,544,876	-	-	1,369,785	1,544,876
Health and human services	150,015	138,993	-	-	150,015	138,993
Culture and recreation	381,545	364,771	-	-	381,545	364,771
Debt service	310,002	339,672	-	-	310,002	339,672
Water services	-	-	923,048	983,171	923,048	983,171
Electric Light services	-	-	3,737,086	3,625,581	3,737,086	3,625,581
Total expenses	13,547,815	13,583,592	4,660,134	4,608,752	18,207,949	18,192,344
Change in net position	(228,070)	(540,516)	(266,980)	(31,986)	(495,050)	(572,502)
Net position – beginning of year	7,824,307	8,364,823	5,624,817	5,656,803	13,449,124	14,021,626
Net position – end of year	\$ 7,596,237	\$ 7,824,307	\$ 5,357,837	\$ 5,624,817	\$ 12,954,074	\$ 13,449,124

Governmental Activities – Total revenues in fiscal year 2017 in the Town’s governmental activities increased nearly \$277,000 from the prior fiscal year. The Town’s largest revenue source is property taxes, which represent approximately 75% and 72% of total fiscal year 2017 and 2016 revenues, respectively. Charges for services represented approximately 13% of both total fiscal year 2017 and 2016 revenues. Revenues in all categories were consistent with expectations. The increase in property taxes on a dollar to dollar basis between years was due to the statutorily permissible 2 ½% increase in assessment and new growth. No other revenue sources were greater than 10% of total revenues in fiscal year 2017 or 2016.

Education represents the largest expense category for the Town and is provided through the Wachusett Regional School District. In total, education expenses represented approximately 47% and 46% of total fiscal year 2017 and 2016 expenses. Public safety and public works expenses represented approximately 29% and 10% of total fiscal year 2017 expenses, respectively, and were consistent with the prior fiscal year. No other expense types were greater than 10% of total expenses in fiscal years 2017 or 2016.

Business-Type Activities – User charges for water and electric light services represent virtually all of the revenue reported during fiscal year 2017 and 2016 in the Town’s business-type activities. Both enterprises reported losses from operations in 2017, primarily due to increases in noncash expense associated with pensions and OPEB as well as non-recurring costs at the PMLD in fiscal year 2017.

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 \$3.2 million, which was nearly \$258,000 higher than the prior fiscal year. Of the ending fund balance, nearly \$1.3 million 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 \$1,255,000, while total general fund balance approximated \$1,302,000. 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 10.3% of total fiscal year 2017 general fund expenditures, while total fund balance represents approximately 10.7% 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 \$2,069,000 and net position of the electric light fund was approximately \$3,289,000.

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, 2017 amounts to approximately \$22,173,000, net of accumulated depreciation. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects a decrease of approximately \$622,000. This decrease was a result of current year depreciation 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 decreased by over \$969,000 in fiscal year 2017 to approximately \$7,885,000. In fiscal year 2017, the Town made regular, scheduled repayments on long-term debt of nearly \$969,000.

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 2017 are approximately 95% of the entire property tax 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.
- Net state aid in 2018 is expected to be approximately \$617,000 versus \$608,000 in 2017.
- The Town’s median household income is significantly higher than the statewide and national averages and its unemployment rate is lower than these averages.

The above items were considered when the Town accepted its budget for fiscal year 2018 at the May 2017 Town Meeting. The Town set its tax rate for fiscal year 2018 on December 7, 2017.

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, 2017**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,286,475	\$ 4,101,367	\$ 6,387,842
Investments	1,011,745	1,023,552	2,035,297
Receivables, net:			
Property taxes	354,121	-	354,121
User fees	-	470,426	470,426
Departmental and other	348,761	-	348,761
Intergovernmental	794,238	-	794,238
Prepaid expenses	-	52,508	52,508
Materials and supplies	-	110,012	110,012
Land	2,673,115	641,719	3,314,834
Construction in-process	-	107,302	107,302
Capital assets, net of accumulated depreciation	14,418,536	4,332,534	18,751,070
Total Assets	21,886,991	10,839,420	32,726,411
Deferred Outflows of Resources			
Pensions	1,053,620	236,644	1,290,264
Purchased power adjustment	-	7,328	7,328
Deferred Outflows of Resources	1,053,620	243,972	1,297,592
Liabilities			
Warrants and accounts payable	286,244	361,082	647,326
Accrued expenses	-	46,088	46,088
Customer deposits	-	44,950	44,950
Accrued interest	104,813	12,147	116,960
Other liabilities	1,226	-	1,226
Noncurrent liabilities:			
Due within one year	966,890	82,598	1,049,488
Due in more than one year	13,792,426	3,030,497	16,822,923
Total Liabilities	15,151,599	3,577,362	18,728,961
Deferred Inflows of Resources			
Pensions	192,775	225,732	418,507
Unavailable revenue - rate stabilization reserve	-	1,846,782	1,846,782
Unavailable revenue - other	-	75,679	75,679
Deferred Inflows of Resources	192,775	2,148,193	2,340,968
Net Position			
Net investment in capital assets	11,130,746	3,721,776	14,852,522
Restricted:			
Permanent funds	625,911	-	625,911
Revolving funds	1,065,730	-	1,065,730
Gifts and donations	134,883	-	134,883
Depreciation	-	1,124,000	1,124,000
Other purposes	68,362	-	68,362
Unrestricted	(5,429,395)	512,061	(4,917,334)
Total Net Position	\$ 7,596,237	\$ 5,357,837	\$ 12,954,074

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

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	\$ 1,059,775	\$ 167,069	\$ 103,476	\$ -	\$ (789,230)		\$ (789,230)
Public safety	3,932,762	1,110,784	73,014	-	(2,748,964)		(2,748,964)
Education	6,343,931	-	8,356	-	(6,335,575)		(6,335,575)
Public works	1,369,785	290,927	-	136,443	(942,415)		(942,415)
Health and human services	150,015	22,432	33,224	-	(94,359)		(94,359)
Culture and recreation	381,545	92,684	11,842	-	(277,019)		(277,019)
Interest expense	310,002	-	-	30,452	(279,550)		(279,550)
Total governmental activities	13,547,815	1,683,896	229,912	166,895	(11,467,112)		(11,467,112)
Business-Type activities:							
Water	923,048	886,382	-	-		\$ (36,666)	(36,666)
Electric Light (a)	3,737,086	3,473,368	1,853	-		(261,865)	(261,865)
Total business-type activities	4,660,134	4,359,750	1,853	-		(298,531)	(298,531)
Total Primary Government	\$ 18,207,949	\$ 6,043,646	\$ 231,765	\$ 166,895	(11,467,112)	(298,531)	(11,765,643)
		<u>General Revenues:</u>					
		Property taxes			9,964,421	-	9,964,421
		Motor vehicle and other excise taxes			695,777	-	695,777
		Intergovernmental			527,568	-	527,568
		Penalties and interest on taxes			22,896	-	22,896
		Unrestricted investment income			28,380	31,551	59,931
		Total general revenues			11,239,042	31,551	11,270,593
		Change in Net Position			(228,070)	(266,980)	(495,050)
		<u>Net Position:</u>					
		Beginning of year			7,824,307	5,624,817	13,449,124
		End of year			\$ 7,596,237	\$ 5,357,837	\$ 12,954,074

(a) As of and for the year ended December 31, 2016.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,069,065	\$ 1,217,410	\$ 2,286,475
Investments	385,834	625,911	1,011,745
Receivables, net of allowance for uncollectibles:			
Property taxes	354,121	-	354,121
Departmental and other	88,321	260,440	348,761
Intergovernmental	645,551	148,687	794,238
Total Assets	<u>2,542,892</u>	<u>2,252,448</u>	<u>4,795,340</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 2,542,892</u></u>	<u><u>\$ 2,252,448</u></u>	<u><u>\$ 4,795,340</u></u>
Liabilities			
Warrants and accounts payable	\$ 166,548	\$ 119,696	\$ 286,244
Other liabilities	1,226	-	1,226
Total Liabilities	<u>167,774</u>	<u>119,696</u>	<u>287,470</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	339,546	-	339,546
Unavailable revenue - intergovernmental	645,551	-	645,551
Unavailable revenue - departmental and other	88,321	260,440	348,761
Total Deferred Inflows of Resources	<u>1,073,418</u>	<u>260,440</u>	<u>1,333,858</u>
Fund Balances			
Nonspendable	-	335,904	335,904
Restricted	-	1,536,408	1,536,408
Committed	10,036	-	10,036
Assigned	36,859	-	36,859
Unassigned	1,254,805	-	1,254,805
Total Fund Balances	<u>1,301,700</u>	<u>1,872,312</u>	<u>3,174,012</u>
Total Liabilities , Deferred Inflows of Resources and Fund Balances	<u><u>\$ 2,542,892</u></u>	<u><u>\$ 2,252,448</u></u>	<u><u>\$ 4,795,340</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, 2017**

Total Governmental Fund Balances	\$ 3,174,012
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,091,651
Other assets are not available to pay for current-period expenditures and are therefore deferred inflows of financial resources in the funds.	1,333,858
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds	860,845
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.	(104,813)
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	(6,520,641)
Capital lease obligations	(141,475)
Compensated absences	(100,215)
Other postemployment benefits	(1,498,213)
Net pension liability	<u>(6,498,772)</u>
Net Position of Governmental Activities	<u><u>\$ 7,596,237</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, 2017**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 9,896,261	\$ -	\$ 9,896,261
Intergovernmental	985,754	197,501	1,183,255
Motor vehicle and other excises	695,199	-	695,199
Licenses and permits	70,904	-	70,904
Penalties and interest on taxes	22,896	-	22,896
Fines and forfeitures	9,103	-	9,103
Investment income	3,659	24,721	28,380
Departmental and other revenue	392,208	1,172,115	1,564,323
Contributions and donations	-	48,713	48,713
Total Revenues	<u>12,075,984</u>	<u>1,443,050</u>	<u>13,519,034</u>
Expenditures			
Current:			
General government	772,691	24,457	797,148
Public safety	1,906,980	776,922	2,683,902
Education	6,111,293	-	6,111,293
Public works	1,042,996	138,092	1,181,088
Health and human services	72,228	37,140	109,368
Culture and recreation	192,227	85,511	277,738
Pension and fringe benefits	858,585	-	858,585
State and county assessments	36,315	-	36,315
Debt service:			
Principal	888,697	-	888,697
Interest	316,996	-	316,996
Total Expenditures	<u>12,199,008</u>	<u>1,062,122</u>	<u>13,261,130</u>
Deficiency of Revenues Over Expenditures	<u>(123,024)</u>	<u>380,928</u>	<u>257,904</u>
Other Financing Sources (Uses)			
Transfers in	244,098	-	244,098
Transfers out	-	(244,098)	(244,098)
Total Other Financing Sources	<u>244,098</u>	<u>(244,098)</u>	<u>-</u>
Changes in Fund Balances	121,074	136,830	257,904
Fund Balances - Beginning of year	<u>1,180,626</u>	<u>1,735,482</u>	<u>2,916,108</u>
Fund Balances - End of year	<u><u>\$ 1,301,700</u></u>	<u><u>\$ 1,872,312</u></u>	<u><u>\$ 3,174,012</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, 2017**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 257,904

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	285,045	
Depreciation expense	(881,316)	
Net effect of reporting capital assets		(596,271)

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 capital lease obligation	(23,345)	
Repayments of debt and capital lease obligations	932,258	
Net effect of reporting long-term debt		908,913

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.

(199,289)

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	6,992	
Compensated absences	(12,947)	
Other postemployment benefits	(245,756)	
Net pension liability	(347,616)	

Net effect of reporting long-term liabilities		(599,327)
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Change in Net Position of Governmental Activities **\$ (228,070)**

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 410,626	\$ 3,690,741	\$ 4,101,367
Investments	-	1,023,552	1,023,552
User charges receivable, net	153,580	316,846	470,426
Prepaid expenses	-	52,508	52,508
Materials and supplies	-	110,012	110,012
Total current assets	564,206	5,193,659	5,757,865
Noncurrent assets:			
Land	641,400	319	641,719
Construction in-process	-	107,302	107,302
Capital assets, net of accumulated depreciation	2,484,732	1,847,802	4,332,534
Total noncurrent assets	3,126,132	1,955,423	5,081,555
Total Assets	3,690,338	7,149,082	10,839,420
Deferred Outflows of Resources			
Pensions	13,456	223,188	236,644
Purchased power adjustment	-	7,328	7,328
Total Deferred Outflows of Resources	13,456	230,516	243,972
Total Assets and Deferred Outflows of Resources	<u>\$ 3,703,794</u>	<u>\$ 7,379,598</u>	<u>\$ 11,083,392</u>
Liabilities			
Current liabilities:			
Warrants and accounts payable	\$ 102,439	\$ 258,643	\$ 361,082
Accrued expenses	-	46,088	46,088
Customer deposits	-	44,950	44,950
Retainage payable	-	-	-
Accrued interest	12,147	-	12,147
Compensated absences	976	-	976
Bonds and notes payable	81,622	-	81,622
Total current liabilities	197,184	349,681	546,865
Noncurrent liabilities:			
Compensated absences	1,812	-	1,812
Bonds and notes payable	1,282,960	-	1,282,960
Other postemployment benefits	67,318	167,496	234,814
Net pension liability	82,998	1,427,913	1,510,911
Total noncurrent liabilities	1,435,088	1,595,409	3,030,497
Total Liabilities	1,632,272	1,945,090	3,577,362
Deferred Inflows of Resources			
Pensions	2,462	223,270	225,732
Contribution in aid of construction	-	75,679	75,679
Rate stabilization reserve	-	1,846,782	1,846,782
Total Deferred Inflows of Resources	2,462	2,145,731	2,148,193
Total Liabilities and Deferred Inflows of Resources	1,634,734	4,090,821	5,725,555
Net Position			
Net investment in capital assets	1,766,353	1,955,423	3,721,776
Restricted for depreciation	-	1,124,000	1,124,000
Unrestricted	302,707	209,354	512,061
Total Net Position	2,069,060	3,288,777	5,357,837
Total Liabilities, Deferred Outflows of Resources and Net Position	<u>\$ 3,703,794</u>	<u>\$ 7,379,598</u>	<u>\$ 11,083,392</u>

(a) As of December 31, 2016.

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, 2017**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Operating Revenues			
Charges for services	\$ 886,382	\$ 3,420,105	\$ 4,306,487
Other	-	53,263	53,263
Total Operating Revenues	<u>886,382</u>	<u>3,473,368</u>	<u>4,359,750</u>
Operating Expenses			
Water purchases	508,042	-	508,042
Personnel and other operating costs	285,056	3,560,280	3,845,336
Depreciation	90,349	176,669	267,018
Total Operating Expenses	<u>883,447</u>	<u>3,736,949</u>	<u>4,620,396</u>
Total Operating Income (Loss)	<u>2,935</u>	<u>(263,581)</u>	<u>(260,646)</u>
Nonoperating Revenues (Expenses)			
Investment income	401	31,150	31,551
Interest expense	(39,601)	(137)	(39,738)
Other	-	1,853	1,853
Total Nonoperating Revenues (Expenses)	<u>(39,200)</u>	<u>32,866</u>	<u>(6,334)</u>
Decrease in Net Position	<u>(36,265)</u>	<u>(230,715)</u>	<u>(266,980)</u>
Net Position - Beginning of Year	<u>2,105,325</u>	<u>3,519,492</u>	<u>5,624,817</u>
Net Position - End of Year	<u>\$ 2,069,060</u>	<u>\$ 3,288,777</u>	<u>\$ 5,357,837</u>

(a) For the year ended December 31, 2016.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-Type Activities		
	Water	Electric Light (a)	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 893,898	\$ 3,448,337	\$ 4,342,235
Receipts from other operating revenues	-	53,263	53,263
Payments to employees	(146,256)	(968,515)	(1,114,771)
Payments to vendors	(623,887)	(2,419,553)	(3,043,440)
Net Cash Provided by Operating Activities	<u>123,755</u>	<u>113,532</u>	<u>237,287</u>
Cash Flows from Noncapital Financing Activities			
Interest expense	-	(137)	(137)
Proceeds from grant awards	-	12,433	12,433
Payment of grant expenses	-	(10,580)	(10,580)
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>1,716</u>	<u>1,716</u>
Cash Flows (Used in) from Capital and Related Financing Activities			
Contribution in aid of construction	-	16,957	16,957
Acquisition and construction of capital assets	(7,830)	(235,220)	(243,050)
Principal payments on bonds and notes	(80,418)	-	(80,418)
Interest payments on bonds and notes	(38,343)	-	(38,343)
Net Cash Used in Capital and Related Financing Activities	<u>(126,591)</u>	<u>(218,263)</u>	<u>(344,854)</u>
Cash Flows from Investing Activities			
Investment income	401	4,096	4,497
Investment of operating cash, net	-	8,008	8,008
Net Cash Provided by Investing Activities	<u>401</u>	<u>12,104</u>	<u>12,505</u>
Decrease in Cash and Cash Equivalents	(2,435)	(90,911)	(93,346)
Cash and Cash Equivalents			
Beginning of the year	<u>413,061</u>	<u>3,781,652</u>	<u>4,194,713</u>
End of the year	<u>\$ 410,626</u>	<u>\$ 3,690,741</u>	<u>\$ 4,101,367</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	\$ 2,935	\$ (263,581)	\$ (260,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	90,349	176,669	267,018
Surplus power adjustment	-	(40,369)	(40,369)
Changes in assets and liabilities:			
Receivables	7,516	14,006	21,522
Prepaid expenses and materials	-	27,583	27,583
Purchased power adjustments	-	13,060	13,060
Accounts payable and accrued expenses	22,955	186,164	209,119
Net Cash Provided by Operating Activities	<u>\$ 123,755</u>	<u>\$ 113,532</u>	<u>\$ 237,287</u>

(a) For the year ended December 31, 2016.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	<u>OPEB Trust Electric Light (a)</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 19,719	\$ 81,918
Investments	<u>358,757</u>	<u>-</u>
Total Assets	<u>378,476</u>	<u>81,918</u>
Liabilities		
Escrows and deposits held	<u>-</u>	<u>81,918</u>
Total Liabilities	<u>-</u>	<u>81,918</u>
Net Position		
Held in trust for other postemployment benefits	<u>378,476</u>	<u>-</u>
Total Net Position	<u><u>\$ 378,476</u></u>	<u><u>\$ -</u></u>

(a) As of December 31, 2016.

See accompanying notes to basic financial statements.

TOWN OF PAXTON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	<u>OPEB Trust Electric Light (a)</u>
Additions	
Employer contributions	\$ 40,369
Investment income	<u>26,118</u>
Total Additions	<u>66,487</u>
Change in Net Position	66,487
Net Position - beginning of year	<u>311,989</u>
Net Position - end of year	<u><u>\$ 378,476</u></u>

(a) For the year ended December 31, 2016.

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, 2017

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, 2016 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 2017, the Town’s assessment was \$5,853,444. 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 2017, the Town's assessment was \$257,849. 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 GAAP.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes up to the statutory interest percentage rate 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, if material.

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, in addition to issuance costs (if material), are 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.

Risk Financing – The Town insures for workers' compensation, health, unemployment benefits, casualty, theft and other losses. Uninsured losses are recorded as expenditures when incurred.

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. Deferred pensions will be recognized into pension expense within the next five years.

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 and pension-related transactions. The deferred pensions will be recognized as reductions to pension expense within the next five years. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial

statements. These amounts will be recognized as an inflow of resources in the period that the amounts become available.

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

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 – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable 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	\$ -	\$ 335,904	\$ 335,904
Restricted:			
General government	-	219,641	219,641
Public safety	-	495,151	495,151
Education	-	55,996	55,996
Public works	-	21,763	21,763
Health and human services	-	411,257	411,257
Culture and recreation	-	332,600	332,600
Committed:			
General government	10,036	-	10,036
Assigned:			
Public safety	29,128	-	29,128
Public works	7,731	-	7,731
Unassigned:			
Stabilization - general	397,263	-	397,263
Stabilization - capital	33,618	-	33,618
Unrestricted	823,924	-	823,924
	<u>\$ 1,301,700</u>	<u>\$ 1,872,312</u>	<u>\$ 3,174,012</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 two types of stabilization funds – general and capital under Section 5B of Chapter 40 of Massachusetts General Laws, or MGL. The use of stabilization funds requires the vote of two-thirds of Town Meeting. The fund balances in the Town's two stabilization funds are reported as unassigned in the general fund at June 30, 2017.

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 \$36,859 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

E. Excess of Expenditures Over Appropriations and Deficits

During the year ended June 30, 2017, there were no material expenditures exceeding appropriations. Additionally, there were no material deficits in the Town's nonmajor governmental funds.

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.

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.

Deposits and Investments of the Town (excludes the PMLD)

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, 2017:

Investments by Fair Value Level	June 30, 2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 124,762	\$ 124,762	\$ -	\$ -
U.S. Governmental agency obligations	455,584	455,584	-	-
Corporate bonds	135,316	135,316	-	-
Total debt securities	715,662	715,662	-	-
Equity securities	50,538	50,538	-	-
Mutual funds	245,545	245,545	-	-
Total investments by fair value level	\$ 1,011,745	\$ 1,011,745	\$ -	\$ -

All of the Town's investments were classified in Level 1 as these securities are traded in active markets.

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, 2017, all of the Town's bank deposits were fully insured by the Federal Depository Insurance Corporation ("FDIC"), the Depositors Insurance Fund ("DIF") or other forms of collateralization and was therefore unexposed 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, 2017. 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, 2017, 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
U.S. government obligations	\$ 580,346	\$ -	\$ 580,346	\$ -	\$ -
Corporate fixed income securities	135,316	65,324	69,992	-	-
Total investments with maturities	715,662	\$ 65,324	\$ 650,338	\$ -	\$ -
<u>Other Investments:</u>					
Equities	50,538				
Mutual funds	245,545				
Total Town investments	\$ 1,011,745				

Of the Town’s investments in corporate fixed income, \$65,324 were rated by Moody’s Investors Service (“Moody’s”) as A2, \$49,816 were rated Baa1, and \$20,176 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 equities or mutual funds.

Deposits and Investments of the PMLD (as of December 31, 2016)

The following table presents the PMLD’s investments carried at fair value on a recurring basis as of December 31, 2016:

Investments by Fair Value Level	June 30, 2017	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 456,984	\$ 456,984	\$ -	\$ -
Corporate bonds	566,568	566,568	-	-
Total debt securities	1,023,552	1,023,552	-	-
Mutual funds	358,757	358,757	-	-
Total investments by fair value level	\$ 1,382,309	\$ 1,382,309	\$ -	\$ -

All of the PMLD’s investments were classified in Level 1 as these securities are traded in active markets.

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, 2016, 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 45% of the PMLD’s total investments at December 31, 2016. No other individual investment represented more than 5% of the PMLD’s total investments.

Investment Maturities – At December 31, 2016, 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
U.S. government obligations	\$ 456,984	\$ 131,778	\$ 180,646	\$ 144,560	\$ -
Corporate fixed income securities	566,568	25,426	318,530	222,612	-
Total investments with maturities	<u>\$ 1,023,552</u>	<u>\$ 157,204</u>	<u>\$ 499,176</u>	<u>\$ 367,172</u>	<u>\$ -</u>
<u>Other Investments:</u>					
Mutual funds	358,757				
Total PMLD investments	<u>\$ 1,382,309</u>				

All of the PMLD’s investments in U.S. government obligations were rated AA+ by Standard and Poor’s Financial Services LLC (“S&P”). Of the PMLD’s investments in corporate fixed income securities, \$28,266 were rated AA+, \$71,802 were rated AA, \$71,596 were rated AA-, \$36,162 were rated A+, \$200,078 were rated A, and \$158,664 were rated A- by S&P.

B. Receivables

Receivables as of June 30, 2017 for the Town's major governmental funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, were as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Real estate taxes	\$ 78,584	\$ -	\$ 78,584
Personal property taxes	764	-	764
Tax liens and foreclosures	274,773	-	274,773
Motor vehicle and other excise taxes	99,093	(32,183)	66,910
Departmental and other	258,680	(63,297)	195,383
Title V loan receivables	86,468	-	86,468
Intergovernmental	<u>794,238</u>	<u>-</u>	<u>794,238</u>
Total	<u>\$ 1,592,600</u>	<u>\$ (95,480)</u>	<u>\$ 1,497,120</u>

Receivables as of June 30, 2017 for the Town's proprietary funds were as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Receivables:			
Water user charges	\$ 148,777	\$ -	\$ 148,777
Due from MCWT - water	4,803	-	4,803
PMLD user charges	<u>316,846</u>	<u>-</u>	<u>316,846</u>
Total	<u>\$ 470,426</u>	<u>\$ -</u>	<u>\$ 470,426</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:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivable type:			
Real estate and personal property taxes	\$ 64,773	\$ -	\$ 64,773
Tax liens	274,773	-	274,773
Motor vehicle and other excise taxes	66,910	-	66,910
Departmental and other	21,411	260,440	281,851
Intergovernmental and other	<u>645,551</u>	<u>-</u>	<u>645,551</u>
Total	<u>\$ 1,073,418</u>	<u>\$ 260,440</u>	<u>\$ 1,333,858</u>

School Building Assistance Reimbursement – As of June 30, 2017, the Town expects to receive the balance of grants from the Massachusetts School Building Authority of \$676,090 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 \$645,551 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 2017, the Town transferred \$236,400 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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 2,673,115	\$ -	\$ -	\$ 2,673,115
Capital assets being depreciated:				
Buildings and improvements	22,010,467	3,720	-	22,014,187
Infrastructure	2,381,579	236,297	-	2,617,876
Machinery and equipment	1,112,453	6,354	-	1,118,807
Vehicles	3,765,747	53,674	(15,000)	3,804,421
Total capital assets being depreciated	29,270,246	300,045	(15,000)	29,555,291
Less accumulated depreciation for:				
Buildings and improvements	(10,167,712)	(460,620)	-	(10,628,332)
Infrastructure	(952,015)	(165,224)	-	(1,117,239)
Machinery and equipment	(783,752)	(66,263)	-	(850,015)
Vehicles	(2,351,960)	(204,209)	15,000	(2,541,169)
Total accumulated depreciation	(14,255,439)	(896,316)	15,000	(15,136,755)
Total capital assets being depreciated, net	15,014,807	(596,271)	-	14,418,536
Total governmental activities capital assets, net	\$ 17,687,922	\$ (596,271)	\$ -	\$ 17,091,651

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 641,719	\$ -	\$ -	\$ 641,719
Construction in-process	-	107,302	-	107,302
Total capital assets not being depreciated	641,719	107,302	-	749,021
Capital assets being depreciated:				
Electric plant	5,949,506	127,918	(23,493)	6,053,931
Buildings and improvements	689,100	-	-	689,100
Infrastructure	4,326,442	-	-	4,326,442
Machinery and equipment	30,929	7,830	-	38,759
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	11,022,397	135,748	(23,493)	11,134,652
Less accumulated depreciation for:				
Electric plant	(4,051,137)	(178,485)	23,493	(4,206,129)
Buildings and improvements	(364,733)	(14,300)	-	(379,033)
Infrastructure	(2,088,537)	(75,642)	-	(2,164,179)
Machinery and equipment	(25,950)	(407)	-	(26,357)
Vehicles	(26,420)	-	-	(26,420)
Total accumulated depreciation	(6,556,777)	(268,834)	23,493	(6,802,118)
Total capital assets being depreciated, net	4,465,620	(133,086)	-	4,332,534
Total business-type activities capital assets, net	\$ 5,107,339	\$ (25,784)	\$ -	\$ 5,081,555
	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities: Water</i></u>				
Capital assets not being depreciated:				
Land	\$ 641,400	\$ -	\$ -	\$ 641,400
Capital assets being depreciated:				
Buildings and improvements	689,100	-	-	689,100
Infrastructure	4,326,442	-	-	4,326,442
Machinery and equipment	30,929	7,830	-	38,759
Vehicles	26,420	-	-	26,420
Total capital assets being depreciated	5,072,891	7,830	-	5,080,721
Less accumulated depreciation for:				
Buildings and improvements	(364,733)	(14,300)	-	(379,033)
Infrastructure	(2,088,537)	(75,642)	-	(2,164,179)
Machinery and equipment	(25,950)	(407)	-	(26,357)
Vehicles	(26,420)	-	-	(26,420)
Total accumulated depreciation	(2,505,640)	(90,349)	-	(2,595,989)
Total capital assets being depreciated, net	2,567,251	(82,519)	-	2,484,732
Total Water capital assets, net	\$ 3,208,651	\$ (82,519)	\$ -	\$ 3,126,132

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities: PMLD</u></i>				
Capital assets not being depreciated:				
Land	\$ 319	\$ -	\$ -	\$ 319
Construction in-process	-	107,302	-	107,302
Total capital assets not being depreciated	319	107,302	-	107,621
Capital assets being depreciated:				
Distribution plant	4,765,066	113,716	(23,493)	4,855,289
General plant	1,184,440	14,202	-	1,198,642
Total capital assets being depreciated	5,949,506	127,918	(23,493)	6,053,931
Less accumulated depreciation for:				
Distribution plant	(3,446,111)	(144,907)	23,493	(3,567,525)
General plant	(605,026)	(33,578)	-	(638,604)
Total accumulated depreciation	(4,051,137)	(178,485)	23,493	(4,206,129)
Total capital assets being depreciated, net	1,898,369	(50,567)	-	1,847,802
Total PMLD capital assets, net	\$ 1,898,688	\$ 56,735	\$ -	\$ 1,955,423

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 13,814	Water	\$ 90,349
Public safety	358,117	PMLD	178,485
Education	232,417		<u>\$ 268,834</u>
Public works	261,870		
Health and human services	3,655		
Culture and recreation	26,443		
	<u>\$ 896,316</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, 2016 is \$440,314 and is reported in the PMLD’s current assets.

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. Temporary notes activity for fiscal year 2017 was as follows:

Type	Interest Rate	Maturity Date	July 1, 2016	Additions	Retirements	June 30, 2017
RAN	1.00%	matured	\$ -	\$ 500,000	\$ (500,000)	\$ -

The RAN was issued in fiscal year 2017 to finance Town operations.

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.

The following reflects the current year activity (the PMLD’s activity is for the year ended December 31, 2016) 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	\$ 7,409,338	\$ -	\$ (888,697)	\$ 6,520,641	\$ 887,698
Capital lease obligations	161,691	23,345	(43,561)	141,475	44,117
Compensated absences	87,268	12,947	-	100,215	35,075
Other postemployment benefits	1,252,457	309,567	(63,811)	1,498,213	-
Net pension liability	5,524,800	1,351,029	(377,057)	6,498,772	-
Total Governmental Activities	\$ 14,435,554	\$ 1,696,888	\$ (1,373,126)	\$ 14,759,316	\$ 966,890
<i>Business-Type Activities - Water:</i>					
General obligation bonds and notes payable	\$ 1,445,000	\$ -	\$ (80,418)	\$ 1,364,582	\$ 81,622
Compensated absences	2,476	312	-	2,788	976
Other postemployment benefits	56,275	13,910	(2,867)	67,318	-
Net pension liability	70,228	17,165	(4,395)	82,998	-
Total Water	1,573,979	31,387	(87,680)	1,517,686	82,598
<i>Business-Type Activities - PMLD:</i>					
Other postemployment benefits	117,245	108,358	(58,107)	167,496	-
Net pension liability	1,465,538	52,873	(90,498)	1,427,913	-
Total PMLD	1,582,783	161,231	(148,605)	1,595,409	-
Total Business-Type Activities	\$ 3,156,762	\$ 192,618	\$ (236,285)	\$ 3,113,095	\$ 82,598

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, 2017 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%	\$ 7,371,000	\$ -	\$ (881,000)	\$ 6,490,000
MCWT notes payable	4.50 - 5.63%	38,338	-	(7,697)	30,641
Total Governmental Activities		<u>\$ 7,409,338</u>	<u>\$ -</u>	<u>\$ (888,697)</u>	<u>\$ 6,520,641</u>
<i>Business-Type Activities - Water:</i>					
General obligation bonds	3.97 - 4.65	\$ 75,000	\$ -	\$ (25,000)	\$ 50,000
MCWT notes payable	2.00%	1,370,000	-	(55,418)	1,314,582
Total Water		<u>1,445,000</u>	<u>-</u>	<u>(80,418)</u>	<u>1,364,582</u>
Total Business-Type Activities		<u>\$ 1,445,000</u>	<u>\$ -</u>	<u>\$ (80,418)</u>	<u>\$ 1,364,582</u>

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

Year Ending	Principal			Interest			Total	
June 30,	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy		
<i>Governmental Activities</i>								
2018	\$ 887,698	\$ -	\$ 887,698	\$ 316,105	\$ (1,883)	\$ 314,222	\$ 1,201,920	
2019	882,697	-	882,697	279,575	(1,450)	278,125	1,160,822	
2020	522,697	-	522,697	239,678	(1,017)	238,661	761,358	
2021	522,549	-	522,549	199,871	(598)	199,273	721,822	
2022	485,000	-	485,000	179,883	(198)	179,685	664,685	
2023-2027	1,865,000	-	1,865,000	629,262	-	629,262	2,494,262	
2028-2032	505,000	-	505,000	267,614	-	267,614	772,614	
2033-2037	250,000	-	250,000	175,000	-	175,000	425,000	
2038-2042	250,000	-	250,000	120,312	-	120,312	370,312	
2043-2047	250,000	-	250,000	65,625	-	65,625	315,625	
2048-2049	100,000	-	100,000	13,125	-	13,125	113,125	
Total	<u>\$ 6,520,641</u>	<u>\$ -</u>	<u>\$ 6,520,641</u>	<u>\$ 2,486,050</u>	<u>\$ (5,146)</u>	<u>\$ 2,480,904</u>	<u>\$ 9,001,545</u>	
<i>Business-Type Activities- Entirely Water</i>								
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	61,708	-	61,708	21,612	-	21,612	83,320	
2023-2027	329,248	-	329,248	89,003	-	89,003	418,251	
2028-2032	366,615	-	366,615	54,615	-	54,615	421,230	
2033-2036	323,031	-	323,031	16,325	-	16,325	339,356	
	<u>\$ 1,364,582</u>	<u>\$ -</u>	<u>\$ 1,364,582</u>	<u>\$ 283,312</u>	<u>\$ -</u>	<u>\$ 283,312</u>	<u>\$ 1,647,894</u>	

At June 30, 2017, no amounts were authorized and unissued for additional borrowings.

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, 2017 was approximately \$24 million based on an equalized valuation of over \$487 million.

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, 2017 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2018	\$ 50,300
2019	50,300
2020	27,028
2021	<u>27,028</u>
Total minimum lease payments	154,656
Less amount representing interest	<u>(13,181)</u>
Present value of minimum lease payments	<u>\$ 141,475</u>

Assets acquired through capital leases are as follows:

<u>Asset Description</u>	<u>Amount</u>
Front end loader	\$ 230,000
Ambulance	146,900
Police cruiser	23,345
Less accumulated depreciation	<u>(275,735)</u>
Net carrying value	<u>\$ 124,510</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 MGL. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2016 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, 2016 was as follows:

Active members	7,473
Inactive members entitled to, but not receiving benefits	1,674
Inactive members (or beneficiaries) currently receiving benefits	<u>3,618</u>
	<u>12,765</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 for all municipal retirement systems. 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 2017.

Contributions Requirements – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of MGL, 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 \$481,335 to the Retirement System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 16% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the Town reported a liability of \$8,009,683 for its proportionate share of the net pension liability. The net pension liability reported by the Retirement System at December 31, 2016 (used for fiscal year-end June 30, 2017) is \$8,299,837. 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, 2016 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, 2016. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. However, since the last actuarial valuation, the Retirement System decreased the discount rate used in the actuarial valuation 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, 2016 and December 31, 2015.

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, 2016, 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 \$957,065 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, 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	\$ 53,669	\$ -
Changes of assumptions	831,306	-
Net difference between projected and actual earnings on pension plan investments	298,900	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	6,506	418,507
Contributions subsequent to the measurement date	99,883	-
	<u>\$ 1,290,264</u>	<u>\$ 418,507</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	\$	208,338
2018		208,337
2019		207,760
2020		150,229
2021		97,093
	<u>\$</u>	<u>871,757</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, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Inflation:	3.0% per year (3.5% per year for the actuarial valuation as of January 1, 2014)
Amortization method:	Payment increases 4.0% per year, except for early retirement incentive ("ERI") programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing
Salary increases:	Group 1: 4.20-6.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014) Group 4: 4.75-7.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014)
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation (8.00% for the actuarial valuation as of January 1, 2014)

Mortality rates:	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled life mortality:	For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB
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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	40 %	4.97 %
Fixed income	22 %	2.29 %
Private equity	11 %	6.50 %
Real estate	10 %	3.50 %
Timber/natural resources	4 %	3.00 %
Hedge funds	13 %	3.48 %

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 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	\$ 9,647,757	\$ 8,009,683	\$ 6,626,877

B. Other Postemployment Benefits

In addition to the pension benefits previously described, the Town provides health and life insurance benefits (other postemployment benefits, or OPEB) to current and future retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B Section 20 (hereinafter referred to as the “OPEB Plan”). 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 insurance program. The OPEB 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 OPEB Plan.

Under Chapter 32B Section 20, the Town Treasurer is the custodian of the OPEB Plan. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule and an approved OPEB trust investment policy. OPEB Plan assets are segregated from other funds and shall not be subject to the claims of any general creditor of the Town.

For the year ended June 30, 2017, the Town records its net OPEB obligation under GASB Statement No. 45. The Town was required to adopt GASB Statement No. 74 in fiscal year 2017, which would have expanded disclosures surrounding OPEB. However, the Town has not committed funds to an irrevocable trust to assist in funding its OPEB liabilities. The PMLD maintains an OPEB trust fund, however as the PMLD has a December 31 fiscal year end, it was not required to adopt GASB Statement No. 74 until the next fiscal year.

Plan Membership – Current membership in the OPEB Plan as of June 30, 2017 included 39 active employees and 13 retired employees for a total of 52 participants.

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Town retirees contribute 60% of monthly insurance premiums; the remaining 40% is contributed by the Town. The costs of administering the OPEB Plan are paid by the Town. The Town currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis.

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")	\$ 326,334	\$ 123,045	\$ 449,379
Interest on net OPEB obligation	50,098	3,582	53,680
Adjustment to ARC	(66,866)	(4,358)	(71,224)
Annual OPEB cost	309,566	122,269	431,835
Contributions made	(63,811)	(60,974)	(124,785)
Increase in net OPEB obligation	245,756	61,294	307,050
Net OPEB obligation - beginning of year	1,252,457	173,520	1,425,977
Net OPEB obligation - end of year	\$ 1,498,213	\$ 234,814	\$ 1,733,027

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, 2017	\$ 431,835 *	28.9%	\$ 1,733,027
June 30, 2016	431,429	20.0%	1,425,977
June 30, 2015	392,670	51.5%	1,080,835

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

General Government \$44,951; Public Safety \$199,571; Public Works \$40,878; Health and Human Services \$7,817; Culture and Recreation \$16,349; Water \$13,911; and PMLD \$108,358.

Funding Status and Funding Progress – The funded status of the OPEB Plan at June 30, 2017, based on the most recent actuarial valuation performed, was as follows:

Actuarial accrued liability	\$ 3,919,974
Actuarial value of assets	<u>311,989</u>
Unfunded AAL (UAAL)	<u>\$ 3,607,985</u>
Funded ratio	8.0%
Covered payroll	<u>\$ 2,703,830</u>
UAAL as a percentage of covered payroll	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, 2016 as its pro rata share of these costs is no material to its financial statements.

D. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, in these situations at June 30, 2017 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, 2017.

Appellate Tax Board – Generally the Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). At June 30, 2017, there were no pending cases in ATB.

Grant Compliance – 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, would not have a material effect on its financial condition.

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, 2016, total capital expenditures for the Berkshire Wind Facility amounted to \$59,256,145, of which \$2,496,000 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 \$52,855,000, of which \$2,226,000 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, 2016, the Cooperative's total future debt service requirement on outstanding bonds issued for certain projects of the MMWEC (the "Projects") is \$75,587,000, of which \$3,182,000 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, 2016 and estimated for future years is as follows:

<u>For Years Ending December 31,</u>	
2017	\$ 228,000
2018	228,000
2019	227,000
2020	227,000
2021	227,000
2022 to 2026	1,136,000
2027 to 2030	<u>909,000</u>
	<u>\$ 3,182,000</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, 2016, total capital expenditures for MMWEC's Projects amounted to \$1,636,374,000, of which \$11,849,000 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 \$55,795,000, of which \$415,000 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, 2016, MMWEC’s total future debt service requirement on outstanding bonds issued for the Projects is \$59,281,000, of which \$441,000 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, 2016 and estimated for future years is shown below.

<u>For Years Ending December 31,</u>	<u>Annual Costs</u>
2017	\$ 354,000
2018	25,000
2019	<u>62,000</u>
	<u>\$ 441,000</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 \$1,100,000 for the year ended December 31, 2016.

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 \$216,785 in 2017, \$147,475 in 2018, \$144,082 in 2019 and \$68,798 in 2020.

IV. Implementation of GASB Pronouncements

A. Current 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 was 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 became effective for the Town in fiscal year 2017. The Town will report the information required under GASB 74 when it is available.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 required the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not 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 were 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 became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 applied to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not 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. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

B. Future Year Implementations

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 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 November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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TOWN OF PAXTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2017

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

	Year Ended December 31,		
	2016	2015	2014
Town's proportion of the net pension liability (asset)	0.990914%	0.989389%	1.051696%
Town's proportionate share of the net pension liability (asset)	\$ 8,300	\$ 7,061	\$ 6,258
Town's covered-employee payroll	\$ 2,963	\$ 2,610	\$ 2,509
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	280.1%	270.5%	249.4%
Plan fiduciary net position as a percentage of the total pension liability	42.00%	44.52%	47.94%

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

	Year Ended June 30,		
	2017	2016	2015
Actuarially determined contribution	\$ 481	\$ 445	\$ 416
Contributions in relation to the actuarially determined contribution	481	445	416
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Town's covered-employee payroll	\$ 2,963	\$ 2,610	\$ 2,509
Contributions as a percentage of covered-employee payroll	16.2%	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, 2017**

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
2017	\$ 431,835	\$ 124,785	28.9%
2016	431,429	86,287	20.0%
2015	392,670	82,179	20.9%

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, 2017**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
Revenues						
Real estate and personal property	\$ 9,829,152	\$ 9,829,152	\$ 9,893,853		\$ 9,893,853	\$ 64,701
Intergovernmental	975,446	975,446	985,754		985,754	10,308
Motor vehicle and other excises	660,500	660,500	695,199		695,199	34,699
Licenses and permits	50,000	50,000	70,904		70,904	20,904
Departmental and other revenue	398,778	398,778	392,208		392,208	(6,570)
Penalties and interest	24,000	24,000	22,896		22,896	(1,104)
Fines and forfeitures	6,000	6,000	9,103		9,103	3,103
Investment income	4,850	4,850	5,270		5,270	420
Total Revenues	<u>11,948,726</u>	<u>11,948,726</u>	<u>12,075,187</u>		<u>12,075,187</u>	<u>126,461</u>
Expenditures						
General government	894,793	894,793	772,691	\$ 10,036	782,727	112,066
Public safety	1,945,143	1,945,143	1,906,980	29,128	1,936,108	9,035
Education	6,114,215	6,114,215	6,111,293	-	6,111,293	2,922
Public works	1,066,661	1,066,661	1,042,996	7,731	1,050,727	15,934
Health and human services	81,739	81,739	72,228	-	72,228	9,511
Culture and recreation	200,248	200,248	192,227	-	192,227	8,021
Fringe and pension benefits	875,974	875,974	858,585	-	858,585	17,389
State and county tax assessments	36,195	36,195	36,315	-	36,315	(120)
Debt service	1,205,694	1,205,694	1,205,693	-	1,205,693	1
Total Expenditures	<u>12,420,662</u>	<u>12,420,662</u>	<u>12,199,008</u>	<u>\$ 46,895</u>	<u>12,245,903</u>	<u>174,759</u>
Other Financing Sources (Uses)						
Transfers in	244,098	244,098	244,098		244,098	-
Transfers out	(6,000)	(6,000)	(6,000)		(6,000)	-
Total Other Financing Sources (Uses)	<u>238,098</u>	<u>238,098</u>	<u>238,098</u>		<u>238,098</u>	<u>-</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(233,838)</u>	<u>(233,838)</u>	<u>\$ 114,277</u>		<u>\$ 67,382</u>	<u>\$ 301,220</u>
Other Budgetary Items:						
Prior year encumbrances	13,199	13,199				
Free cash	132,318	132,318				
Overlay release	90,000	90,000				
Other	(1,679)	(1,679)				
Total Other Budgetary Items	<u>233,838</u>	<u>233,838</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, 2017

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, 2017, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 12,075,187
Stabilization revenue	\$ -	\$ (1,611)	(1,611)
Change in accruing revenues to GAAP basis	2,408	-	2,408
Revenues on a GAAP basis	<u>\$ 2,408</u>	<u>\$ -</u>	<u>\$ 12,075,984</u>
Other financing sources (uses) on a budgetary basis			\$ 238,098
Stabilization transfers	\$ -	\$ 6,000	6,000
Other financing sources (uses) on a GAAP basis	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 244,098</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, 2017 (except for the Paxton Municipal Light Department, which is as of December 31, 2016), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 15, 2018.

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
February 15, 2018