

TOWN OF BLACKSTONE, MASSACHUSETTS

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

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

TOWN OF BLACKSTONE, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Blackstone, 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 Blackstone, Massachusetts, (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatements

The Town's basic financial statements as of and for the year ended June 30, 2015 were audited by other auditors whose opinion, dated May 11, 2016, on those basic financial statements was unmodified. As discussed in Note V, the Town restated its fiscal year 2015 basic financial statements during the current year. The other auditors reported on the basic financial statements before this restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the funding progress and contribution funding for 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 January 19, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
January 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Blackstone, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by nearly \$29.6 million (*total net position*) at June 30, 2016. This represents an increase of approximately \$1,187,000 from the prior year. The Town's net position in its governmental activities increased nearly \$780,000 while its net position in its business-type activities increased over \$407,000.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$11.6 million, which is approximately \$247,000 greater than the prior year. The Town reported a positive change in fund balance in its capital investment fund of over \$616,000. This was offset by fund balance decreases of approximately \$301,000 and \$68,000 in the Town's general fund and nonmajor governmental funds, respectively.
- Of the ending fund balance in the Town's governmental funds, approximately \$5.4 million 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, the unassigned fund balance for the general fund was approximately 29% percent of the total general fund expenditures and the total general fund balance was approximately 37% of the total general fund expenditures.
- The Town's total long-term bonded debt decreased by approximately \$55,000 during the current fiscal year. The Town completed a \$1,007,000 general obligation bond offering, of which all of the proceeds were used to repay short-term borrowings incurred by the Town's recycling and water enterprise funds. The Town repaid nearly \$1,062,000 in principal on long-term bonded debt in fiscal year 2016.
- In its May 31, 2016 Annual Town Meeting, the local legislative body voted to rescind the enterprise fund treatment of the Town's recycling operations. The financial statements reflect the transfer of the assets and liabilities of this operation to the general fund as of the close of the fiscal year.

Overview of the Financial Statements

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

Both of the government-wide financial statements distinguish functions 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 through a regional district, community development, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include its water and sewer operations.

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 two categories: governmental funds and proprietary funds.

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

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

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital investment fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds. *Proprietary funds* are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer 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.

Government-Wide Financial Analysis

The condensed comparative statements of net position are as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>
<u>Assets</u>						
Current and other assets	\$ 13,782,565	\$ 13,387,701	\$ 2,433,256	\$ 2,214,800	\$ 16,215,821	\$ 15,602,501
Capital assets, net	18,725,887	17,521,159	17,532,618	18,391,369	36,258,505	35,912,528
Total assets	32,508,452	30,908,860	19,965,874	20,606,169	52,474,326	51,515,029
<u>Deferred Outflows of Resources</u>						
Pensions	676,970	5,933	58,867	-	735,837	5,933
<u>Liabilities</u>						
Long-term liabilities	11,377,181	11,755,966	9,315,853	8,468,628	20,693,034	20,224,594
Other liabilities	532,899	745,185	172,656	2,189,987	705,555	2,935,172
Total liabilities	11,910,080	12,501,151	9,488,509	10,658,615	21,398,589	23,159,766
<u>Deferred Inflows of Resources</u>						
Pensions	2,082,072	-	181,050	-	2,263,122	-
<u>Net Position</u>						
Net investment in capital assets	17,390,499	16,099,207	9,066,542	9,621,453	26,457,041	25,720,660
Restricted	1,379,330	1,253,150	-	-	1,379,330	1,253,150
Unrestricted	423,441	1,061,285	1,288,640	326,101	1,712,081	1,387,386
Net Position	\$ 19,193,270	\$ 18,413,642	\$ 10,355,182	\$ 9,947,554	\$ 29,548,452	\$ 28,361,196

The condensed comparative statements of activities are as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>Year Ended</u>		<u>Year Ended</u>		<u>Year Ended</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>	<u>June 30, 2016</u>	<u>June 30, 2015</u> <i>(as restated)</i>
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 897,908	\$ 543,199	\$ 1,811,031	\$ 1,911,818	\$ 2,708,939	\$ 2,455,017
Operating grants and contributions	435,267	431,316	168,700	-	603,967	431,316
Capital grants and contributions	476,307	35,984	-	-	476,307	35,984
General revenues:						
Property taxes	16,362,643	15,829,270	-	-	16,362,643	15,829,270
Intergovernmental	1,261,792	1,244,788	-	-	1,261,792	1,244,788
Other	1,551,275	1,472,321	-	-	1,551,275	1,472,321
Total revenues	20,985,192	19,556,878	1,979,731	1,911,818	22,964,923	21,468,696
<u>Expenses</u>						
General government	1,818,828	1,921,890	-	-	1,818,828	1,921,890
Public safety	4,171,209	3,935,956	-	-	4,171,209	3,935,956
Education	9,710,192	9,202,646	-	-	9,710,192	9,202,646
Public works	2,216,817	2,198,303	-	-	2,216,817	2,198,303
Health and human services	538,210	559,132	-	-	538,210	559,132
Culture and recreation	853,286	800,775	-	-	853,286	800,775
Debt service	25,772	58,656	-	-	25,772	58,656
Recycling	-	-	360,206	423,098	360,206	423,098
Sewer and water	-	-	2,083,147	1,797,076	2,083,147	1,797,076
Total expenses	19,334,314	18,677,358	2,443,353	2,220,174	21,777,667	20,897,532
Change in net position before transfers	1,650,878	879,520	(463,622)	(308,356)	1,187,256	571,164
Transfers	(871,250)	(1,057,833)	871,250	1,057,833	-	-
Change in net position	779,628	(178,313)	407,628	749,477	1,187,256	571,164
Net position, beginning of year	18,413,642	17,781,719	9,947,554	14,152,164	28,361,196	31,933,883
Restatement (a)	-	810,236	-	(4,954,087)	-	(4,143,851)
Net position, end of year	\$ 19,193,270	\$ 18,413,642	\$ 10,355,182	\$ 9,947,554	\$ 29,548,452	\$ 28,361,196

(a) Refer to Note V to the basic financial statements.

Statement of Net Position. The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by nearly \$29.6 million (*total net position*). The Town reported positive balances in all categories of net position at both June 30, 2016 and 2015.

The government-wide financial statements include approximately \$9,626,000 and \$837,000 in long-term obligations associated with other postemployment benefits and pension liabilities in the Town's governmental activities and business-type activities, respectively. These long-term liabilities are reflected as deductions to the Town's unrestricted net position.

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

An additional portion of the Town's net position (approximately \$1.4 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance (approximately \$1.7 million) is referred to as *unrestricted net position*, and may be used to meet the government's ongoing obligations to citizens and creditors.

Statement of Activities – Governmental Activities. During fiscal year 2016, Town property taxes (which includes PILOT revenues) comprised approximately 78% of total revenues, versus 81% of revenues in fiscal year 2015. In actual dollars, the Town's property taxes increased over \$533,000, or approximately 3.4%, from the prior year. The increase was consistent with the normal growth under Proposition 2 ½ plus new growth. No other revenues were greater than 10% of total revenues in fiscal years 2016 or 2015.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 50% of total annual expenditures in fiscal year 2016, which was consistent with the prior year's ratio of 49%. Public safety and public works expenses represented approximately 22% and 11% of total annual expenditures in fiscal year 2016, respectively; each of which was consistent with their prior year's ratio. No other expense categories were greater than 10% in fiscal years 2016 or 2015.

Statement of Activities – Business-Type Activities. User charges represent the majority of the reported revenues in both fiscal years 2016 and 2015. In fiscal year 2016, the Town separately reported the net position and results of operations of its sewer and water operations, which had been previously reported in a single, aggregated presentation. As a result, year-over-year expense comparisons for the Town's business-type activities are not meaningful in fiscal year 2016.

The Town determined in fiscal year 2016 that the revenues generated from its recycling operations were insufficient to support itself. In its May 31, 2016 Annual Town Meeting, the local legislative body rescinded the enterprise fund status of the recycling operations and transferred the assets and liabilities of the recycling operation to the general fund at the conclusion of the fiscal year.

Governmental Funds Financial Analysis

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$11.6 million, which is an approximate \$247,000 increase from the prior year. The Town reported a positive change in fund balance in its capital investment fund of over \$616,000. This was offset by fund balance decreases of approximately \$301,000 and \$68,000 in the Town's general fund and nonmajor governmental funds, respectively. Of the ending fund balance, approximately \$5.4 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, the unassigned fund balance of the general fund was approximately \$5.4 million, while total fund balance was over \$6.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 29% of total general fund expenditures, while total fund balance represents approximately 37% of that same amount.

The Town's capital investment fund is restricted for debt service purposes; it's primary source of funding is the transfer of PILOT monies received from the Town's agreement with ANP Blackstone Energy Company LLC, a power generator. At June 30, 2016, the capital investment fund has a fund balance of over \$3.6 million. The release of funds from the capital investment fund requires the affirmative vote of two-thirds by the local legislative body at either the Annual Town Meeting or at a Special Town Meeting.

The remainder of the governmental funds are restricted due to constraints placed externally by third-parties.

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, the net position of the sewer and water enterprise funds were approximately \$10.4 million in the aggregate.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2016, the Town's investment in capital assets for its governmental and business-type activities approximated \$18.7 million and \$17.5 million, respectively. Governmental net fixed assets increased over \$1.2 million as capital additions in 2016 exceeded depreciation. Business-type net fixed assets decreased by nearly \$0.9 million as depreciation expense in 2016 exceeded capital additions. In addition, net capital assets of nearly \$451,000 from the recycling operation were transferred from business-type activities to governmental activities at the conclusion of fiscal year 2016.

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

Long-term Debt. At the end of the current fiscal year, the Town had total long-term bonded debt outstanding of approximately \$9.8 million. The Town's total long-term bonded debt decreased by approximately \$55,000 during the current fiscal year. The Town completed a \$1,007,000 general obligation bond offering, of which all of the proceeds were used to repay short-term borrowings incurred by the Town's recycling and water enterprise funds. The Town repaid nearly \$1,062,000 in principal on long-term bonded debt in fiscal year 2016

The Town's bond rating of "AA+" was set by Standard and Poor's Financial Services LLC in July 2015 and the Town continues to maintain this rating.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$42.6 million, which significantly exceeds the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which in 2016 are approximately 80% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy. The Town typically taxes at or near its levy limit annually.
- The Town is experiencing an uptick in new home building and expects several additional residential housing projects to commence in the near future.
- The U.S. Bureau of Labor Statistics reported a 4.5% unemployment rate for the Town for June 2016, which is slightly behind the 4.3% statewide unemployment rate. Additionally, median household incomes for the Town are approximately 7% higher than the stateside average.
- Property values within the Town have recouped the losses experienced during the recent nationwide housing crisis. However, the Town's median house price lags the statewide average by over 20%. The disparity between household income (see above) and housing prices presents opportunities to attract potential residents from other suburban Massachusetts areas.

Each of these factors were considered in preparing the Town's budget for the 2017 fiscal year, which was adopted at Town Meeting in May 2016. The fiscal year 2017 tax rate, which reflects the adopted budget, was set on December 21, 2016.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Administrator, 15 Saint Paul Street, Blackstone, MA 01504.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,466,607	\$ 1,846,837	\$ 8,313,444
Investments	5,338,279	-	5,338,279
Receivables, net of allowance for uncollectible accounts:			
Property taxes	1,198,730	-	1,198,730
User fees	-	586,419	586,419
Departmental and other	524,826	-	524,826
Intergovernmental	254,123	-	254,123
Capital assets not being depreciated	4,031,792	152,506	4,184,298
Capital assets, net of depreciation	14,694,095	17,380,112	32,074,207
Total Assets	32,508,452	19,965,874	52,474,326
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	676,970	58,867	735,837
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	512,332	37,668	550,000
Accrued interest expense	9,843	134,988	144,831
Other liabilities	10,724	-	10,724
Noncurrent liabilities:			
Due in one year or less	516,989	844,380	1,361,369
Due in more than one year	10,860,192	8,471,473	19,331,665
Total Liabilities	11,910,080	9,488,509	21,398,589
DEFERRED INFLOWS OF RESOURCES			
Pensions	2,082,072	181,050	2,263,122
NET POSITION			
Net investment in capital assets	17,390,499	9,066,542	26,457,041
Restricted for:			
State and federal grants	85,201	-	85,201
Gifts funds	508,334	-	508,334
Revolving funds	573,794	-	573,794
Other purposes	212,001	-	212,001
Unrestricted	423,441	1,288,640	1,712,081
Total Net Position	\$ 19,193,270	\$ 10,355,182	\$ 29,548,452

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 1,818,828	\$ 166,563	\$ 28,639	\$ -	\$ (1,623,626)		\$ (1,623,626)
Public safety	4,171,209	597,534	51,758	-	(3,521,917)		(3,521,917)
Education	9,710,192	90,045	111,224	-	(9,508,923)		(9,508,923)
Public works	2,216,817	3,696	57,749	476,307	(1,679,065)		(1,679,065)
Health and human services	538,210	37,195	132,523	-	(368,492)		(368,492)
Culture and recreation	853,286	2,875	53,374	-	(797,037)		(797,037)
Interest expense	25,772	-	-	-	(25,772)		(25,772)
Total Governmental Activities	19,334,314	897,908	435,267	476,307	(17,524,832)		(17,524,832)
Business-Type Activities							
Recycling	360,206	192,074	168,700	-	-	\$ 568	568
Sewer	979,494	679,865	-	-	-	(299,629)	(299,629)
Water	1,103,653	939,092	-	-	-	(164,561)	(164,561)
Total Primary Government	\$ 21,777,667	\$ 2,708,939	\$ 603,967	\$ 476,307	(17,524,832)	(463,622)	(17,988,454)
Recycling		General Revenues					
					16,362,643	-	16,362,643
					1,261,792	-	1,261,792
					1,191,255	-	1,191,255
					144,899	-	144,899
					215,121	-	215,121
					(871,250)	871,250	-
					18,304,460	871,250	19,175,710
					779,628	407,628	1,187,256
					18,413,642	9,947,554	28,361,196
					\$ 19,193,270	\$ 10,355,182	\$ 29,548,452

(a) As restated; refer to Note V.

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	General	Capital Investment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,619,233	\$ 884,571	\$ 962,803	\$ 6,466,607
Investments	2,615,757	2,722,522	-	5,338,279
Receivables, net of allowance				
Property taxes	1,198,730	-	-	1,198,730
Excise taxes and other	160,306	-	364,520	524,826
Due from other governments	-	-	254,123	254,123
Total Assets	<u>8,594,026</u>	<u>3,607,093</u>	<u>1,581,446</u>	<u>13,782,565</u>
Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 8,594,026</u>	<u>\$ 3,607,093</u>	<u>\$ 1,581,446</u>	<u>\$ 13,782,565</u>
Liabilities				
Warrants and accounts payable	\$ 475,279	\$ -	\$ 37,053	\$ 512,332
Other liabilities	10,724	-	-	10,724
Total Liabilities	<u>486,003</u>	<u>-</u>	<u>37,053</u>	<u>523,056</u>
Deferred Inflows of Resources				
Unavailable revenues - property taxes	1,099,813	-	-	1,099,813
Unavailable revenues - excise taxes and other	160,306	-	359,107	519,413
Total deferred inflows of resources	<u>1,260,119</u>	<u>-</u>	<u>359,107</u>	<u>1,619,226</u>
Fund Balances				
Restricted	-	-	1,185,286	1,185,286
Committed	505,175	3,607,093	-	4,112,268
Assigned	927,694	-	-	927,694
Unassigned	5,415,035	-	-	5,415,035
Total Fund Balances	<u>6,847,904</u>	<u>3,607,093</u>	<u>1,185,286</u>	<u>11,640,283</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 8,594,026</u>	<u>\$ 3,607,093</u>	<u>\$ 1,581,446</u>	<u>\$ 13,782,565</u>

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

Total Governmental Fund Balances	\$ 11,640,283
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,725,887
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds.	1,619,226
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(9,843)
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	(1,335,388)
Compensated absences	(416,083)
Other postemployment benefits	(1,786,167)
Net pension liability	<u>(9,244,645)</u>
Fund Balances of Governmental Activities	<u><u>\$ 19,193,270</u></u>

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	General	Capital Investment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Real estate and personal property taxes, net	\$ 16,389,730	\$ -	\$ -	\$ 16,389,730
Intergovernmental	1,514,448	-	615,184	2,129,632
Motor vehicle and other excises	1,149,345	-	-	1,149,345
Departmental and other revenue	50,857	-	493,692	544,549
License and permits	208,316	-	-	208,316
Penalties and interest on taxes	144,899	-	-	144,899
Fines and forfeitures	48,112	-	-	48,112
Investment income	123,196	117,725	-	240,921
Contributions and donations	-	-	43,734	43,734
Total Revenues	<u>19,628,903</u>	<u>117,725</u>	<u>1,152,610</u>	<u>20,899,238</u>
Expenditures				
Current:				
General government	1,889,865	-	212,730	2,102,595
Public safety	2,688,986	-	30,323	2,719,309
Education	9,510,198	-	93,238	9,603,436
Public works	1,724,337	-	520,406	2,244,743
Health and human services	427,921	-	20,406	448,327
Culture and recreation	560,235	-	42,000	602,235
Pensions and other fringe benefits	1,429,538	-	-	1,429,538
State and county tax assessments	39,735	-	-	39,735
Debt service:				
Principal	264,947	-	-	264,947
Interest	25,962	-	-	25,962
Total Expenditures	<u>18,561,724</u>	<u>-</u>	<u>919,103</u>	<u>19,480,827</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,067,179</u>	<u>117,725</u>	<u>233,507</u>	<u>1,418,411</u>
Other Financing Sources (Uses):				
Transfers in	1,840,885	1,947,225	-	3,788,110
Transfers out	<u>(3,208,935)</u>	<u>(1,448,840)</u>	<u>(301,494)</u>	<u>(4,959,269)</u>
Total Other Financing Sources (Uses)	<u>(1,368,050)</u>	<u>498,385</u>	<u>(301,494)</u>	<u>(1,171,159)</u>
Net Change in Fund Balances	(300,871)	616,110	(67,987)	247,252
Fund Balances - Beginning of year (a)	<u>7,148,775</u>	<u>2,990,983</u>	<u>1,253,273</u>	<u>11,393,031</u>
Fund Balances - End of year	<u>\$ 6,847,904</u>	<u>\$ 3,607,093</u>	<u>\$ 1,185,286</u>	<u>\$ 11,640,283</u>

(a) As restated; refer to Note V.

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 247,252**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. This amount represents the net amount of depreciation expense in excess of capital outlay.

The amounts are represented here as reconciling items:

Capital outlays	\$ 1,823,450	
Transfer to net carrying value of recycling capital assets	450,709	
Depreciation expense	<u>(1,097,182)</u>	
Net effect of reporting fixed assets		1,176,977

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 amount presented here as a reconciling item represents repayments on long-term debt in fiscal year

Repayments on long-term debt - general government	264,947	
Repayments on long-term debt - recycling	(25,800)	
Transfer of carrying value of recycling long-term debt	<u>(150,800)</u>	
Net effect of reporting long-term debt		88,347

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

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

111,754

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:

Compensated absences, net	(50,506)	
Other postemployment benefits	(619,451)	
Net pension liability	<u>(174,935)</u>	
Net effect of reporting long-term liabilities		<u>(844,892)</u>

Net Change in Fund Balances of Governmental Activities **\$ 779,628**

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Business-Type Activities - Enterprise Funds		
	Sewer	Water	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 694,896	\$ 1,151,941	\$ 1,846,837
User charges receivable	263,588	322,831	586,419
Total current assets	<u>958,484</u>	<u>1,474,772</u>	<u>2,433,256</u>
Noncurrent assets:			
Land	-	152,506	152,506
Capital assets, net of accumulated depreciation	8,022,727	9,357,385	17,380,112
Total noncurrent assets	<u>8,022,727</u>	<u>9,509,891</u>	<u>17,532,618</u>
Total Assets	<u>8,981,211</u>	<u>10,984,663</u>	<u>19,965,874</u>
Deferred Outflows of Resources			
Pensions	<u>22,075</u>	<u>36,792</u>	<u>58,867</u>
Liabilities			
Current liabilities:			
Warrants payable and other liabilities	9,469	28,199	37,668
Accrued interest expense	77,094	57,894	134,988
Bond and note indebtedness	521,113	316,888	838,001
Compensated absences	2,566	3,813	6,379
Total current liabilities	<u>610,242</u>	<u>406,794</u>	<u>1,017,036</u>
Noncurrent liabilities:			
Bond and note indebtedness	5,151,982	2,476,093	7,628,075
Compensated absences	2,566	3,813	6,379
Other postemployment benefits	58,245	97,075	155,320
Net pension liability	255,637	426,062	681,699
Total noncurrent liabilities	<u>5,468,430</u>	<u>3,003,043</u>	<u>8,471,473</u>
Total Liabilities	<u>6,078,672</u>	<u>3,409,837</u>	<u>9,488,509</u>
Deferred Inflows of Resources			
Pensions	<u>67,894</u>	<u>113,156</u>	<u>181,050</u>
Net Position			
Invested in capital assets	2,349,632	6,716,910	9,066,542
Unrestricted	<u>507,088</u>	<u>781,552</u>	<u>1,288,640</u>
Total Net Position	<u>\$ 2,856,720</u>	<u>\$ 7,498,462</u>	<u>\$ 10,355,182</u>

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Business-Type Activities - Enterprise Funds			
	Recycling	Sewer	Water	Totals
Operating Revenues				
User charges	\$ 192,074	\$ 679,865	\$ 939,092	\$ 1,811,031
Total Operating Revenues	<u>192,074</u>	<u>679,865</u>	<u>939,092</u>	<u>1,811,031</u>
Operating Expenses				
Operating costs	297,454	534,606	661,475	1,493,535
Depreciation	59,533	221,225	332,669	613,427
Total Operating Expenses	<u>356,987</u>	<u>755,831</u>	<u>994,144</u>	<u>2,106,962</u>
Total Operating Loss	<u>(164,913)</u>	<u>(75,966)</u>	<u>(55,052)</u>	<u>(295,931)</u>
Nonoperating Income (Expenses)				
Interest expense	(3,219)	(223,663)	(109,509)	(336,391)
Forgiveness of internal balance	168,700	-	-	168,700
Transfers out, net	<u>(80,460)</u>	<u>725,431</u>	<u>226,279</u>	<u>871,250</u>
Total Nonoperating Revenues (Expenses), net	<u>85,021</u>	<u>501,768</u>	<u>116,770</u>	<u>703,559</u>
Change in Net Position	(79,892)	425,802	61,718	407,628
Net Position - Beginning of year (a)	<u>79,892</u>	<u>2,430,918</u>	<u>7,436,744</u>	<u>9,947,554</u>
Net Position - End of year	<u>\$ -</u>	<u>\$ 2,856,720</u>	<u>\$ 7,498,462</u>	<u>\$ 10,355,182</u>

(a) As restated; refer to Note V.

See accompanying notes to basic financial statements.

TOWN OF MAYNARD, MASSACHUSETTS

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

	Business-Type Activities - Enterprise Funds			
	Recycling	Sewer	Water	Totals
Cash Flows from Operating Activities				
Receipts from users	\$ 192,074	\$ 679,604	\$ 964,554	\$ 1,836,232
Payments to employees	(194,215)	(188,234)	(233,310)	(615,759)
Payments to vendors	(182,080)	(311,590)	(354,345)	(848,015)
Net Cash (Used in) Provided by Operating Activities	(184,221)	179,780	376,899	372,458
Cash Flows from Noncapital Related Financing Activities				
Forgiveness of internal balance	168,700	-	-	168,700
Transfers, net	(80,460)	725,431	226,279	871,250
Net Cash Provided by Noncapital Related Financing Activities	88,240	725,431	226,279	1,039,950
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	-	-	(205,385)	(205,385)
Borrowings of long-term debt	125,000	-	882,000	1,007,000
Principal payments on bonds	(25,800)	(526,113)	(218,888)	(770,801)
Interest paid	(3,219)	(229,318)	(103,615)	(336,152)
Net Cash Provided by (Used in) Capital and Related Financing Activities	95,981	(755,431)	354,112	(305,338)
Net Change in Cash and Cash Equivalents	-	149,780	957,290	1,107,070
Cash and Cash Equivalents				
Beginning of year	-	545,116	194,651	739,767
End of year	\$ -	\$ 694,896	\$ 1,151,941	\$ 1,846,837
Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities:				
Operating loss	\$ (164,913)	\$ (75,966)	\$ (55,052)	\$ (131,018)
Depreciation	59,533	221,225	332,669	553,894
Changes in assets and liabilities:				
Receivables	122,214	(261)	25,462	25,201
Warrants payable and accrued expenses	(201,055)	34,782	73,820	108,602
Net Cash (Used in) Provided by Operating Activities	\$ (184,221)	\$ 179,780	\$ 376,899	\$ 556,679

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Other Postemployment Benefits Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 810,046
Investments, at fair value	262,598	-
Total Assets	262,598	810,046
Liabilities		
Warrants and accounts payable	-	2,601
Planning board and guarantee deposits	-	117,091
ANP escrow	-	687,624
Other	-	2,730
Total Liabilities	-	810,046
Net Position Held in Trust for		
Other postemployment benefits	262,598	-
Total Net Position	\$ 262,598	\$ -

See accompanying notes to basic financial statements.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Other Postemployment Benefits Trust Fund
Additions	
Employer contributions	\$ 250,000
Investment income:	
Interest and dividends	6,176
Net realized and unrealized gains (losses)	7,802
Less: investment management fees	(1,380)
Net investment earnings	12,598
Total Additions	<u>262,598</u>
Total Deductions	<u>-</u>
Change in Net Position	262,598
Net Position - Beginning of year	<u>-</u>
Net Position - End of year	<u><u>\$ 262,598</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town, which is located in Worcester County is approximately thirty-seven miles southwest of Boston and thirty miles southeast of Worcester. The Town was incorporated as a town in 1845. The governing structure utilizes an open town meeting format with an elected five-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 police and fire protection, public education from kindergarten to grade 12 through a regional school district, library, water and sewer services, street maintenance, parks and recreational facilities. The water and sewer services are self-funded 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. Pursuant to these criteria there are no component units required to be included in the financial statements.

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.

Separate financial statements are provided for governmental funds and proprietary funds. 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. Fiduciary funds are reported by fund type.

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 have been 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 interest on general long-term debt, which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are both material and 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 Town 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.

Capital Investment Fund – is used to pay debt service costs of the Town. The Town is required to contribute annually 90% of the payment in lieu of taxes, or PILOT, monies it receives under an agreement with ANP Blackstone Energy Company LLC, a power generator. The release of funds from the capital investment fund requires the affirmative vote of two-thirds by the local legislative body at either the Annual Town Meeting or at a Special Town Meeting. Furthermore, monies may be expended from the capital investment fund for emergency purposes by a vote of the Selectmen and approval by the Director of Accounts of the Department of Revenue of the Commonwealth of Massachusetts.

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

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

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

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 funds:

Water Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Sewer Enterprise Fund – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

Recycling Enterprise Fund – accounts for user charges collected to finance costs associated with maintained the Blackstone Valley Regional Recycling Center. On May 31, 2016, Town Meeting members voted to terminate the enterprise fund status of the recycling operations. Effective July 1, 2016, the activities of the Town’s recycling operations will be reported in the Town’s general fund. The activities of the recycling operations are presented in the

proprietary funds for the year ended June 30, 2016; its ending net position was transferred to the general fund (and the governmental activities) at the conclusion of fiscal year 2016. The recycling enterprise fund reported a \$0 net position at June 30, 2016.

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:

Other Postemployment Benefits Trust Fund – is used to account for funds accumulated by the Town to assist it in its future OPEB obligations. This fund was established in fiscal year 2016.

Agency Funds – are used to account for funds received for and paid to other funds, individuals or organizations such as those held on deposit or escrow by the Town for various purposes including planning board deposits.

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

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

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 City’s best estimate of what market participants would use in pricing the investment at the measurement date.

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

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 3,324,943	\$ 3,324,943	\$ -	\$ -
Corporate bonds	944,241	944,241	-	-
Total debt securities	4,269,184	4,269,184	-	-
Equity securities	744,372	744,372	-	-
Mutual funds	324,723	324,723	-	-
State Retirees Benefits Trust Fund	262,598	-	262,598	-
Total investments by fair value level	\$ 5,600,877	\$ 5,338,279	\$ 262,598	\$ -

Debt and equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The State Retirees Benefit Trust Fund is classified in Level 2 based on the composition and fair value of underlying investments contained within this pool, which can be determined using inputs other than the quoted prices that are observable either directly or indirectly.

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

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

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in both government-wide and governmental fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer 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. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

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

Building and improvements	20 to 50 years
Infrastructure	20 to 50 years
Machinery and equipment	5 to 10 years
Vehicles	5 to 7 years

In the case of buildings, building improvements and infrastructure, all purchases and construction costs exceeding \$25,000 are capitalized at the date of acquisition or construction, if their expected lives are greater than two years. In the case of machinery, equipment and vehicles, all purchases exceeding \$5,000 are capitalized at the date of acquisition, if their expected lives are 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.

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 retained by the respective funds.

Compensated Absences – The Town permits employees to accumulate earned but unused vacation and sick-pay benefits. 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 fund financial statements only if they have matured.

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports items related to its net pension liability as deferred outflows of resources in both its government-wide and business-type activities, which it expects to amortize 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 items related to its net pension liability as deferred inflows of resources in both its government-wide and business-type activities, which it expects to amortize into pension expense within the next five years, which will result in reductions in reported pension expense. In its governmental fund financial statements, the Town reports *unavailable revenues* as deferred inflows of resources within the governmental funds balance sheet. Unavailable revenues are derived from three sources – property taxes, motor vehicle excise taxes and departmental revenues. The Town expects to recognize these items into revenue in the period(s) that these 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 (1) state and federal grants, (2) gift and donation funds, (3) revolving funds and (4) other purposes.

Fund Equity – The Town presents fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

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

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes.

Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

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

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the Town’s governmental funds, primarily its general fund.

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use, it is the Town’s policy to use committed resources first, then assigned, and then unassigned as they are needed. The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

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

	General	Capital Investment Fund	Nonmajor Governmental Funds	Total
Restricted:				
General government	\$ -	\$ -	\$ 531,430	\$ 531,430
Public safety	-	-	491,036	491,036
Public works	-	-	10,808	10,808
Health and human services	-	-	72,683	72,683
Culture and recreation	-	-	79,329	79,329
Committed:				
Capital investments	-	3,607,093	-	3,607,093
Special articles	505,175	-	-	505,175
Assigned:				
General government	79,466	-	-	79,466
Public works	79,443	-	-	79,443
Continuing appropriations	728,257	-	-	728,257
Other purposes	40,528	-	-	40,528
Unassigned:				
Stabilization - general	3,432,953	-	-	3,432,953
Unrestricted	1,982,082	-	-	1,982,082
	<u>\$ 6,847,904</u>	<u>\$ 3,607,093</u>	<u>\$ 1,185,286</u>	<u>\$11,640,283</u>

Stabilization Funds – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$3,432,953 at June 30, 2016 and is reported as unassigned fund balance in the general fund. The Town also maintains a capital investment fund, which is used for debt service purposes upon a two-thirds vote of the Town Meeting. The balance of the capital investment fund totals \$3,607,093 at June 30, 2016 and is reported as a committed fund balance in its own fund.

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

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2016, there were no instances where expenditures exceeded appropriations.

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.

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2016, bank balances totaling \$747,243 were not covered by federal depository insurance or by other depositors’ insurance programs and therefore were exposed to custodial credit risk.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. According to the Town’s investment policy, the Town mitigates this risk through diversification, the prudent selection of investment instruments and choice of depository.

All of the Town's investments, while held by a counterparty, are registered in the Town's name and are therefore not exposed to custodial credit risk. Furthermore, the Town's investments are held in accounts insured by the Securities Investor Protection Corporation, or SIPC, and excess SIPC.

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the 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 U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

The following table summarizes the credit ratings issued by Standard and Poor's Financial Services LLC, or S&P, for the Town's debt securities at June 30, 2016. Credit ratings are not available for the Town's investments in the mutual funds and equity securities.

<u>S&P Rating</u>	<u>U.S. Government Obligations</u>	<u>Corporate Fixed Income</u>	<u>Total</u>
AA+	\$ 3,324,943	\$ 212,954	\$ 3,537,897
A	-	202,495	202,495
BBB+	-	528,792	528,792
	<u>\$ 3,324,943</u>	<u>\$ 944,241</u>	<u>\$ 4,269,184</u>

Investment Maturities – The Town had the following investments at June 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturity in Years</u>		
		<u>Less than Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
<u>Debt securities:</u>				
U.S. Government obligations	\$ 3,324,943	\$ -	\$ 3,324,943	\$ -
Corporate fixed income	944,241	212,954	731,287	-
Total investments with maturities	<u>4,269,184</u>	<u>\$ 212,954</u>	<u>\$ 4,056,230</u>	<u>\$ -</u>
<u>Other investments:</u>				
State Retirees Benefits Trust Fund	262,598			
Equities	744,372			
Mutual funds	324,723			
Total Investments	<u>\$ 5,600,877</u>			

Certificates of deposit and money market accounts have been classified as cash equivalents in these financial statements due to the liquid nature of these types of short-term investments.

Interest Rate Risk – In the case of investments, this is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the more sensitive it is to changes in market interest rates. According to the Town's investment policy, the Town mitigates this risk through diversification, the prudent selection of investment instruments and choice of depository. The Town further mitigates this risk by keeping investment maturities within ten years.

Concentration of Credit Risk – The Town maintains seven individual investments whose individual balances exceed 5% of the Town’s reported investment value, as illustrated in the following table:

<u>Security Name</u>	<u>Amount</u>	<u>Concentration Percentage</u>
U.S. Treasury Note, 0.75%, 02/15/2019	\$ 350,683	6.3%
FHLM Note, 1.25%, 04/28/2021	340,156	6.1%
Bank of America, 2.25%, 4/21/2020 corporate bond	326,817	5.8%
FHLM Note, 1.00%, 11/18/2020	320,211	5.7%
U.S. Treasury Note, 1.375%, 9/30/2018	320,204	5.7%
FHLM Note, 1.25%, 10/29/2020	320,102	5.7%
U.S. Treasury Note, 1.25%, 11/30/18	<u>304,278</u>	5.4%
	<u>\$ 2,282,451</u>	40.8%

B. Receivables

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

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Property taxes	\$ 221,343	\$ -	\$ 221,343
Tax liens and foreclosures	977,387	-	977,387
Motor vehicle excise taxes	280,306	(120,000)	160,306
Ambulance	622,587	(263,480)	359,107
Departmental	5,413	-	5,413
Intergovernmental	<u>254,123</u>	<u>-</u>	<u>254,123</u>
	<u>\$ 2,361,159</u>	<u>\$ (383,480)</u>	<u>\$ 1,977,679</u>

Receivables in the Town’s proprietary funds consisted entirely of user charges. The Town did not record any amounts as uncollectible in either proprietary fund at June 30, 2016.

Governmental funds report unavailable revenues as a deferred inflow of resources 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 at June 30, 2016 in the governmental funds:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 122,426	\$ -	\$ 122,426
Tax liens and foreclosures	977,387	-	977,387
Motor vehicle excise taxes	160,306	-	160,306
Ambulance	<u>-</u>	<u>359,107</u>	<u>359,107</u>
Total	<u>\$ 1,260,119</u>	<u>\$ 359,107</u>	<u>\$ 1,619,226</u>

C. Capital Assets

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

	Beginning Balances (a)	Increases (b)	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,031,792	\$ -	\$ -	\$ 4,031,792
Construction in-process	93,963	-	(93,963)	-
Total capital assets not being depreciated	<u>4,125,755</u>	<u>-</u>	<u>(93,963)</u>	<u>4,031,792</u>
Capital assets being depreciated:				
Buildings and improvements	12,749,614	984,341	-	13,733,955
Infrastructure	17,017,898	887,515	-	17,905,413
Machinery and equipment	3,623,084	689,317	-	4,312,401
Vehicles	1,814,502	254,538	(90,000)	1,979,040
Total capital assets being depreciated	<u>35,205,098</u>	<u>2,815,711</u>	<u>(90,000)</u>	<u>37,930,809</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,820,003)	(360,169)	-	(6,180,172)
Infrastructure	(11,948,801)	(527,742)	-	(12,476,543)
Machinery and equipment	(2,686,635)	(434,457)	-	(3,121,092)
Vehicles	(1,326,504)	(222,403)	90,000	(1,458,907)
Total accumulated depreciation	<u>(21,781,943)</u>	<u>(1,544,771)</u>	<u>90,000</u>	<u>(23,236,714)</u>
Total capital assets being depreciated, net	<u>13,423,155</u>	<u>1,270,940</u>	<u>-</u>	<u>14,694,095</u>
Governmental activities capital assets, net	<u>\$ 17,548,910</u>	<u>\$ 1,270,940</u>	<u>\$ (93,963)</u>	<u>\$ 18,725,887</u>
	Beginning Balances (a)	Increases	Decreases (b)	Ending Balance
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 152,506	\$ -	\$ -	\$ 152,506
Construction in-process	25,830	-	(25,830)	-
Total capital assets not being depreciated	<u>178,336</u>	<u>-</u>	<u>(25,830)</u>	<u>152,506</u>
Capital assets being depreciated:				
Buildings and improvements	2,698,741	-	(353,961)	2,344,780
Infrastructure	21,869,980	231,216	-	22,101,196
Machinery and equipment	1,351,697	-	(388,979)	962,718
Vehicles	202,299	-	(65,358)	136,941
Total capital assets being depreciated	<u>26,122,717</u>	<u>231,216</u>	<u>(808,298)</u>	<u>25,545,635</u>
Less accumulated depreciation for:				
Buildings and improvements	(803,030)	(62,192)	80,962	(784,260)
Infrastructure	(6,203,189)	(443,029)	-	(6,646,218)
Machinery and equipment	(726,321)	(101,019)	229,236	(598,104)
Vehicles	(177,145)	(7,187)	47,391	(136,941)
Total accumulated depreciation	<u>(7,909,685)</u>	<u>(613,427)</u>	<u>357,589</u>	<u>(8,165,523)</u>
Total capital assets being depreciated, net	<u>18,213,032</u>	<u>(382,211)</u>	<u>(450,709)</u>	<u>17,380,112</u>
Business-type activities capital assets, net	<u>\$ 18,391,368</u>	<u>\$ (382,211)</u>	<u>\$ (476,539)</u>	<u>\$ 17,532,618</u>

	Beginning Balances (a)	Increases	Decreases (b)	Ending Balance
<u>Business-type Activities: Recycling</u>				
Capital assets not being depreciated:				
Construction in process	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated:				
Buildings and improvements	\$ 353,961	\$ -	\$ (353,961)	\$ -
Machinery and equipment	388,979	-	(388,979)	-
Vehicles	65,358	-	(65,358)	-
Total capital assets being depreciated	808,298	-	(808,298)	-
Less accumulated depreciation for:				
Buildings and improvements	(67,514)	(13,448)	80,962	-
Machinery and equipment	(190,338)	(38,898)	229,236	-
Vehicles	(40,204)	(7,187)	47,391	-
Total accumulated depreciation	(298,056)	(59,533)	357,589	-
Total capital assets being depreciated, net	510,242	(59,533)	(450,709)	-
Total Net Business-type Activities: Recycling	<u>\$ 510,242</u>	<u>\$ (59,533)</u>	<u>\$ (450,709)</u>	<u>\$ -</u>
<u>Business-type Activities: Sewer</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 1,169,780	\$ -	\$ -	\$ 1,169,780
Infrastructure	9,442,236	-	-	9,442,236
Machinery and equipment	143,845	-	-	143,845
Vehicles	27,522	-	-	27,522
Total capital assets being depreciated	10,783,383	-	-	10,783,383
Less accumulated depreciation for:				
Buildings and improvements	(376,266)	(25,244)	-	(401,510)
Infrastructure	(2,018,510)	(188,845)	-	(2,207,355)
Machinery and equipment	(117,133)	(7,136)	-	(124,269)
Vehicles	(27,522)	-	-	(27,522)
Total accumulated depreciation	(2,539,431)	(221,225)	-	(2,760,656)
Total capital assets being depreciated, net	8,243,952	(221,225)	-	8,022,727
Total Net Business-type Activities: Sewer	<u>\$ 8,243,952</u>	<u>\$ (221,225)</u>	<u>\$ -</u>	<u>\$ 8,022,727</u>

(continued)

	Beginning Balances (a)	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Land	\$ 152,506	\$ -	\$ -	\$ 152,506
Construction in process	25,830	-	(25,830)	-
Total capital assets not being depreciated	<u>178,336</u>	-	(25,830)	<u>152,506</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,175,000	\$ -	\$ -	\$ 1,175,000
Infrastructure	12,427,744	231,216	-	12,658,960
Machinery and equipment	818,873	-	-	818,873
Vehicles	109,419	-	-	109,419
Total capital assets being depreciated	<u>14,531,036</u>	<u>231,216</u>	-	<u>14,762,252</u>
Less accumulated depreciation for:				
Buildings and improvements	(359,250)	(23,500)	-	(382,750)
Infrastructure	(4,184,679)	(254,184)	-	(4,438,863)
Machinery and equipment	(418,850)	(54,985)	-	(473,835)
Vehicles	(109,419)	-	-	(109,419)
Total accumulated depreciation	<u>(5,072,198)</u>	<u>(332,669)</u>	-	<u>(5,404,867)</u>
Total capital assets being depreciated, net	<u>9,458,838</u>	<u>(101,453)</u>	-	<u>9,357,385</u>
Total Net Business-type Activities: Water	<u>\$ 9,637,174</u>	<u>\$ (101,453)</u>	<u>\$ (25,830)</u>	<u>\$ 9,509,891</u> (concluded)

- (a) Beginning balances were restated from the previous financial statements.
- (b) Includes the effects of the transfer of capital assets and accumulated depreciation from the recycling operations, which were reported as an enterprise fund until June 2016. The Town's local legislative body voted to eliminate this enterprise fund and report its operations in the Town's general fund. Capital assets with historical costs of \$808,298 and accumulated depreciation of \$357,589 (\$450,709 net) were included in the increase column of the governmental activities table and decrease columns of the aggregated business-type activities table and the business-type activities: recycling table.

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>		<u>Business-type Activities:</u>	
General government	\$ 90,382	Recycling	\$ 59,533
Public safety	164,275	Sewer	221,225
Education	106,756	Water	<u>332,669</u>
Public works	587,424		
Health and human services	8,004		<u>\$ 613,427</u>
Culture and recreation	<u>140,341</u>		
	<u>\$ 1,097,182</u>		

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2016 are summarized as follows:

Transfers Out	Transfers In					Total
	General Fund	Capital Investment Fund	Recycling Fund	Sewer Fund	Water Fund	
General Fund	\$ -	\$ 1,947,225	\$ 250,000	\$ 755,431	\$ 256,279	\$ 3,208,935 (1)
Capital Investment Fund	1,448,840	-	-	-	-	1,448,840 (2)
Nonmajor Governmental Funds	301,494	-	-	-	-	301,494 (3)
Recycling Enterprise Fund	30,551	-	-	-	-	30,551 (4)
Sewer Enterprise Fund	30,000	-	-	-	-	30,000 (5)
Water Enterprise Fund	30,000	-	-	-	-	30,000 (5)
	<u>\$ 1,840,885</u>	<u>\$ 1,947,225</u>	<u>\$ 250,000</u>	<u>\$ 755,431</u>	<u>\$ 256,279</u>	<u>\$ 5,049,820</u>

- (1) The Town's local legislative body approved the funding of \$1,947,225 to the capital investment fund. A \$250,000 transfer was made to fund the recycling fund's deficit operations. The general fund paid debt service for the sewer and water funds of \$755,431 and \$256,279, respectively.
- (2) Transfers to general fund to fund capital articles.
- (3) Transfers of \$250,000 and \$51,494 from ambulance receipts reserved and other special revenue funds, respectively, to the general fund.
- (4) Effective June 2016, the Town's legislative body voted to eliminate the recycling enterprise fund and transfer this operation to the general fund. The carrying value of the recycling enterprise fund's capital assets (net of accumulated depreciation) and debt totaled \$131,209 and is not included in the figures above as these transfers are reported in the government-wide financial statements for the Town's governmental activities.
- (5) Transfers of indirect costs to general fund.

E. Temporary Debt

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

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or state aid anticipation notes (“SAANS”). 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 2016 was as follows:

Type	Interest Rate	Maturity Date	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
BAN	0.45%	Matured	<u>\$ 1,007,000</u>	<u>\$ -</u>	<u>\$ (1,007,000)</u>	<u>\$ -</u>

These BANs were used to finance the water and recycling projects. The BANs were retired in 2016 with proceeds received from the issuance of long-term general obligation bonds in July 2015. Refer to section F to this Note II.

F. Long-term Obligations

Bond and Note Indebtedness – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations relative to post-retirement personnel costs.

State law permits the 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, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.”

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2016 was approximately \$42.6 million based on an equalized valuation of approximately \$853 million.

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2016:

<u>Description of Issue</u>	<u>Beginning Balances (a)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 1,423,735	\$ 150,800	\$ (239,147)	\$ 1,335,388	\$ 308,947
Compensated absences	365,577	50,506	-	416,083	208,042
Other postemployment benefits	1,166,716	679,866	(60,415)	1,786,167	-
Net pension liability	<u>9,075,643</u>	<u>-</u>	<u>(1,236,100)</u>	<u>7,839,543</u>	<u>-</u>
Total Governmental Activities	<u>\$ 12,031,671</u>	<u>\$ 881,172</u>	<u>\$ (1,535,662)</u>	<u>\$ 11,377,181</u>	<u>\$ 516,989</u>
<i>Business-type Activities:</i>					
Recycling					
General obligation bonds and notes payable	\$ 51,600	\$ 125,000	\$ (176,600)	\$ -	\$ -
Compensated absences	<u>29,052</u>	<u>-</u>	<u>(29,052)</u>	<u>-</u>	<u>-</u>
Total Recycling	<u>80,652</u>	<u>125,000</u>	<u>(205,652)</u>	<u>-</u>	<u>-</u>
Sewer					
General obligation bonds and notes payable	6,199,208	-	(526,113)	5,673,095	521,113
Compensated absences	5,530	-	(398)	5,132	2,566
Other postemployment benefits	38,045	22,170	(1,970)	58,245	-
Net pension liability	<u>295,945</u>	<u>-</u>	<u>(40,308)</u>	<u>255,637</u>	<u>-</u>
Total Sewer	<u>6,538,728</u>	<u>22,170</u>	<u>(568,789)</u>	<u>5,992,109</u>	<u>523,679</u>
Water					
General obligation bonds and notes payable	2,129,869	882,000	(218,888)	2,792,981	316,888
Compensated absences	3,470	4,156	-	7,626	3,813
Other postemployment benefits	63,409	36,949	(3,283)	97,075	-
Net pension liability	<u>493,241</u>	<u>-</u>	<u>(67,179)</u>	<u>426,062</u>	<u>-</u>
Total Water	<u>2,689,989</u>	<u>923,105</u>	<u>(289,350)</u>	<u>3,323,744</u>	<u>320,701</u>
Total Business-type Activities	<u>\$ 9,309,369</u>	<u>\$ 1,070,275</u>	<u>\$ (1,063,791)</u>	<u>\$ 9,315,853</u>	<u>\$ 844,380</u>
Total Long-term Obligations	<u>\$ 21,341,040</u>	<u>\$ 1,951,447</u>	<u>\$ (2,599,453)</u>	<u>\$ 20,693,034</u>	<u>\$ 1,361,369</u>

(a) As restated; refer to Note V.

General obligation bonds outstanding at June 30, 2016 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 1,283,000	\$ 125,000	\$ (175,000)	\$ 1,233,000
State House notes	2.70 - 2.75%	171,600	-	(85,800)	85,800
MCWT note	0.00%	20,735	-	(4,147)	16,588
Total Governmental Activities, net		<u>\$ 1,475,335</u>	<u>\$ 125,000</u>	<u>\$ (264,947)</u>	<u>\$ 1,335,388</u>
<i>Business-type Activities - Recycling:</i>					
General obligation bonds	2.00 - 3.00%	\$ 51,600	\$ 125,000	\$ (176,600)	\$ -
Total Recycling		<u>51,600</u>	<u>125,000</u>	<u>(176,600)</u>	<u>-</u>
<i>Business-type Activities - Sewer:</i>					
General obligation bonds	3.25 - 5.0%	\$ 3,569,000	\$ -	\$ (409,000)	\$ 3,160,000
USDA notes	4.15 - 4.25%	2,630,208	-	(117,113)	2,513,095
Total Sewer		<u>6,199,208</u>	<u>-</u>	<u>(526,113)</u>	<u>5,673,095</u>
<i>Business-type Activities - Water:</i>					
General obligation bonds	2.00 - 5.50	\$ 838,000	\$ 882,000	\$ (146,000)	\$ 1,574,000
USDA notes	4.75 - 5.00%	1,291,869	-	(72,888)	1,218,981
Total Water		<u>2,129,869</u>	<u>882,000</u>	<u>(218,888)</u>	<u>2,792,981</u>
Total Business-type Activities, net		<u>\$ 8,380,677</u>	<u>\$ 1,007,000</u>	<u>\$ (921,601)</u>	<u>\$ 8,466,076</u>
Total Bond and Note Debt		<u>\$ 9,856,012</u>			<u>\$ 9,801,464</u>

Future Debt Payoff – Payments on general long-term debt obligation bonds due in future years consists of the following:

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
2017	\$ 308,947	\$ -	\$ 308,947	\$ 47,875	\$ (825)	\$ 47,050	\$ 355,997
2018	218,147	-	218,147	38,426	(586)	37,840	255,987
2019	199,147	-	199,147	30,425	(347)	30,078	229,225
2020	159,147	-	159,147	23,159	(114)	23,045	182,192
2021	155,000	-	155,000	16,458	-	16,458	171,458
2022 - 2026	295,000	-	295,000	13,087	-	13,087	308,087
Total	<u>\$ 1,335,388</u>	<u>\$ -</u>	<u>\$ 1,335,388</u>	<u>\$ 169,430</u>	<u>\$ (1,872)</u>	<u>\$ 167,558</u>	<u>\$ 1,502,946</u>

(continued)

Bonded Debt - Business-type Activities:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Business-type Activities: Total</i>							
2016	\$ 838,001	\$ -	\$ 838,001	\$ 289,574	\$ -	\$ 289,574	\$ 1,127,575
2017	836,001	-	836,001	263,288	-	263,288	1,099,289
2018	830,001	-	830,001	238,309	-	238,309	1,068,310
2019	825,001	-	825,001	213,434	-	213,434	1,038,435
2020	815,001	-	815,001	188,568	-	188,568	1,003,569
2022 - 2026	2,490,005	-	2,490,005	613,986	-	435,127	2,175,692
2027 - 2031	862,892	-	862,892	315,274	-	229,611	781,107
2032 - 2036	400,030	-	400,030	170,647	-	135,900	436,630
2037 - 2041	351,510	-	351,510	88,483	-	78,560	350,665
2042 - 2045	217,634	-	217,634	22,440	-	22,440	240,074
Total	<u>\$ 8,466,076</u>	<u>\$ -</u>	<u>\$ 8,466,076</u>	<u>\$ 2,404,003</u>	<u>\$ -</u>	<u>\$ 2,094,811</u>	<u>\$ 9,321,346</u>
<i>Business-type Activities: Sewer</i>							
2016	\$ 521,113	\$ -	\$ 521,113	\$ 207,398	\$ -	\$ 207,398	\$ 728,511
2017	521,113	-	521,113	189,033	-	189,033	710,146
2018	518,113	-	518,113	171,788	-	171,788	689,901
2019	515,113	-	515,113	154,607	-	154,607	669,720
2020	515,113	-	515,113	137,444	-	137,444	652,557
2022 - 2026	1,740,565	-	1,740,565	435,127	-	435,127	2,175,692
2027 - 2031	551,496	-	551,496	229,611	-	229,611	781,107
2032 - 2036	300,730	-	300,730	135,900	-	135,900	436,630
2037 - 2041	272,105	-	272,105	78,560	-	78,560	350,665
2042 - 2045	217,634	-	217,634	22,440	-	22,440	240,074
Total	<u>\$ 5,673,095</u>	<u>\$ -</u>	<u>\$ 5,673,095</u>	<u>\$ 1,761,908</u>	<u>\$ -</u>	<u>\$ 1,761,908</u>	<u>\$ 7,435,003</u>
<i>Business-type Activities: Water</i>							
2017	\$ 316,888	\$ -	\$ 316,888	\$ 82,176	\$ -	\$ 82,176	\$ 399,064
2018	314,888	-	314,888	74,255	-	74,255	389,143
2019	311,888	-	311,888	66,521	-	66,521	378,409
2020	309,888	-	309,888	58,827	-	58,827	368,715
2021	299,888	-	299,888	51,124	-	51,124	351,012
2022 - 2026	749,440	-	749,440	178,859	-	178,859	928,299
2027 - 2031	311,396	-	311,396	85,663	-	85,663	397,059
2032 - 2036	99,300	-	99,300	34,747	-	34,747	134,047
2037 - 2040	79,405	-	79,405	9,923	-	9,923	89,328
Total	<u>\$ 2,792,981</u>	<u>\$ -</u>	<u>\$ 2,792,981</u>	<u>\$ 642,095</u>	<u>\$ -</u>	<u>\$ 642,095</u>	<u>\$ 3,435,076</u>

(concluded)

Authorized and Unissued Debt – At June 30, 2016, the Town had authorized and unissued debt for the following:

Project	Amount
Water/sewer (May 1999 ATM)	<u>\$ 1,516,852</u>

G. PILOT Program

ANP Blackstone Energy Company LLC (“ANP”) is a power generation company located in the Town. PILOT agreements between municipalities and power providers are permitted under the provisions of the electric deregulation legislation enacted by the Commonwealth of Massachusetts in 1997. ANP and the Town entered into a PILOT agreement effective July 1, 2006. Under the terms of the PILOT agreement, ANP is required to make quarterly payments to the Town in lieu of property taxes for a period of fourteen consecutive years. This PILOT agreement is set to expire on June 30, 2020.

The PILOT payments cannot be reduced on account of depreciation, however the PILOT payments are increased for inflation. Furthermore, the annual PILOT payment may be adjusted if ANP makes any capital improvements to its facilities or retires any property from its facilities subsequent to July 1, 2006. The adjustment to the PILOT will be determined in accordance with the provisions of the agreement at a rate of \$15.47 per \$1,000.

In fiscal year 2016, the Town received approximately \$2,164,000 from ANP in PILOT payments, which is reported as property taxes in these basic financial statements.

III. Other Information

A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws (“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, 2015 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-seven employers as of December 31, 2015 was as follows:

Active members	6,773
Inactive members entitled to, but not receiving benefits	1,925
Inactive members (or beneficiaries) currently receiving benefits	<u>3,382</u>
	<u>12,080</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

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

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

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

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

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

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

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

Contributions Requirements – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of 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 \$540,058 to the Retirement System in fiscal year 2016, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 16% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$8,521,242 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2015. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. In 2015, the discount rate used in the actuarial valuation decreased from 8.00% to 7.75%. There were no other material changes made in this update to the actuarial assumptions (see below).

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 1.2% at December 31, 2015, which was nearly 0.5% lower than the proportion measured at January 1, 2015. The decrease in proportionate share was primarily attributable to two new employers being admitted into the Retirement System.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the

Retirement System’s full financial statements as of and for the year ended December 31, 2015, which can be obtained by contacting the Retirement Board.

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

Pension Expense – The Town recognized \$729,689 in pension expense in the statement of activities in fiscal year 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	315,057	-
Net difference between projected and actual earnings on pension plan investments	420,780	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	2,263,122
Town contributions subsequent to the measurement date	-	-
	<u>\$ 735,837</u>	<u>\$ 2,263,122</u>

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

Year ended June 30,	
2017	\$ 350,726
2018	350,726
2019	350,717
2020	348,511
2021	<u>126,605</u>
	<u>\$ 1,527,285</u>

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

Inflation:	Not explicitly assumed for the update to December 31, 2015 (3.5% per year for the actuarial valuation as of January 1, 2014).
Salary increased:	3.0% per year, including longevity.
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation.
Mortality rates:	Based on the RP-2000 Mortality Table projected to 2014 with Scale AA.
Disabled life mortality:	For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global equity	40 %	8.02 %
Fixed income	23 %	5.09 %
Private equity	10 %	9.50 %
Real estate	10 %	6.50 %
Timber/natural resources	4 %	7.07 %
Hedge funds	9 %	6.50 %
Other	4 %	6.18 %

Discount Rate – The discount rate used to measure the total pension liability was 7.75%, which is a reduction from the previous 8.0% discount rate. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability 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	\$ 10,259,696	\$ 8,521,242	\$ 7,045,093

B. Risk Financing

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker’s compensation, and unemployment compensation. The Town essentially transfers its risk through payment of its annual assessment, which is adjusted according to the Town’s experience history. All insurance except is carried through conventional, commercial carriers.

C. OPEB – Other Postemployment Benefits

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the “Plan”) in accordance with MGL Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

As of July 1, 2013 (the date of the latest actuarial valuation report), the number of participants in the Plan consisted of 67 active employees and 1 retired employee, which include spouses, for a total of 68 participants.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the cost of the calculated health insurance contributions and 100% of the cost of life insurance. The remainder of the health insurance premiums is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town’s annual OPEB cost is calculated based on the annual required contribution (“ARC”) of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. 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 regarding the Town's OPEB obligation:

Annual required contributions ("ARC")	\$ 730,530
Interest on net OPEB obligation	50,727
Adjustment to ARC	<u>(42,272)</u>
Annual OPEB cost	738,985
Contributions made	<u>(65,668)</u>
Increase in net OPEB obligation	673,317
Net OPEB obligation - beginning of year	<u>1,268,170</u>
Net OPEB obligation - end of year	<u>\$ 1,941,487</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2016	\$ 738,985	9%	\$ 1,941,487
June 30, 2015	692,868	7%	1,268,170
June 30, 2014	648,443	4%	621,736

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$108,778; Public Safety \$401,121; Public Works \$88,383; Health and Human Services \$33,993; Culture and Recreation \$47,591; Sewer \$22,170; and Water \$36,949.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2016 for the most recent actuarial valuation performed as of July 1, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 5,984,408
Actuarial value of assets	<u>-</u>
Unfunded AAL (UAAL)	<u>\$ 5,984,408</u>
Funded ratio	0.0%
Covered payroll	<u>\$ 3,763,098</u>
UUAL as a percentage of covered payroll	159.0%

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.

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, 2013
Discount rate	4.0% pay-as-you-go and 7.5% full pre-funding
Amortization method	Increasing at 4% over 30 years on an open amortization period for pay-as-you-go and on a closed amortization period for full pre-funding
Healthcare cost trend rate	7% grading down to 5% over five years
Mortality table	RP-2000 mortality table, projected to 2014, using Scale AA

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, at June 30, 2016, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2016.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). The total value of property taxes currents in appeals with ATB exceeds \$145.2 million at June 30, 2016. Of this, approximately \$54.7 million pertains to the telephone and telegraph companies, who have challenged their assessed valuations of personal property. The remaining \$90.5 million pertains to real estate tax assessments.

The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these tax payers, if any. Furthermore, the Town cannot determine the likelihood of the taxpayers’ success at the ATB. Therefore, no loss provision has been made in the Town’s basic financial statements.

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.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementations

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

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

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

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

B. Future Year Implementations

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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

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

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

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

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

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for

the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Restatement

The following table summarizes the restatements made in fiscal year 2016 to the beginning fund balances and net position balances as of June 30, 2015:

<i>Government-wide Financial Statements</i>	<u>Business-type Activities</u>					Business-type Activities Total
	<u>Governmental Activities</u>	<u>Water/Sewer Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Recycling Fund</u>	
Net position at June 30, 2015, as previously reported	\$ 17,603,406	\$ 14,697,939			\$ 203,702	\$ 14,901,641
Eliminate allowances for doubtful accounts:						
Property taxes	1,019,525	-			-	-
Excise taxes	30,442	-			-	-
Eliminate other assets	-	-			(122,214)	(122,214)
Restate carrying value of capital asset, net of accumulated depreciation	(1,165,869)	(4,011,520)			41,420	(3,970,100)
Record net pension liability	789,186	(789,186)			-	(789,186)
Record OPEB obligation	101,454	(101,454)			-	(101,454)
Other	35,498	71,883			(43,016)	28,867
Segregate water and sewer enterprise funds		(9,867,662)	\$ 7,436,744	\$ 2,430,918	-	-
Net position at June 30, 2015, as restated	<u>\$ 18,413,642</u>	<u>\$ -</u>	<u>\$ 7,436,744</u>	<u>\$ 2,430,918</u>	<u>\$ 79,892</u>	<u>\$ 9,947,554</u>

<i>Governmental Funds Financial Statements</i>	<u>General</u>	<u>Capital Investment Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balances at June 30, 2015, as previously reported	\$ 6,995,856	\$ 2,990,983	\$ 1,253,273	\$ 11,240,112
Eliminate allowance for doubtful accounts:				
Property taxes	152,919	-	-	152,919
Fund balances at June 30, 2015, as restated	<u>\$ 7,148,775</u>	<u>\$ 2,990,983</u>	<u>\$ 1,253,273</u>	<u>\$ 11,393,031</u>

* * * * *

TOWN OF BLACKSTONE, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2016

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

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	1.20%	1.66%
Town's proportionate share of the net pension liability (asset)	\$ 8,521	\$ 9,865
Town's covered-employee payroll	\$ 3,312	\$ 3,185
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	257.3%	309.7%
Plan fiduciary net position as a percentage of the total pension liability	44.52%	48.00%

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

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 540	\$ 655
Contributions in relation to the actuarially determined contribution	<u>540</u>	<u>655</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 3,312	\$ 3,185
Contributions as a percentage of covered-employee payroll	16.3%	20.6%

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 BLACKSTONE, MASSACHUSETTS

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

SCHEDULES OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets <i>(a)</i>	Actuarial Accrued Liability (AAL) <i>(b)</i>	Unfunded AAL (UAAL) <i>(b-a)</i>	Funded Ratio <i>(a/b)</i>	Covered Payroll <i>(c)</i>	UAAL as a Percentage of Covered Payroll <i>(b-a/c)</i>
7/1/2013	\$ -	\$ 5,984,408	\$ 5,984,408	0.0%	\$ 3,763,098	159%

SCHEDULES OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2016	\$ 738,985	\$ 65,668	8.9%
2015	692,868	46,434	6.7%
2014	648,443	26,707	4.1%

See accompanying independent auditors' report.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues:						
Real estate and personal property	\$ 16,339,715	\$ 16,339,715	\$ 16,382,429	\$ -	\$ 16,382,429	\$ 42,714
Intergovernmental	1,515,884	1,515,884	1,514,448	-	1,514,448	(1,436)
Motor vehicle and other excises	825,000	825,000	1,149,345	-	1,149,345	324,345
Licenses and permits	125,000	125,000	208,316	-	208,316	83,316
Departmental and other revenue	36,577	36,577	50,857	-	50,857	14,280
Penalties and interest	85,750	85,750	144,899	-	144,899	59,149
Fines and forfeitures	35,000	35,000	48,112	-	48,112	13,112
Investment income	10,000	10,000	6,608	-	6,608	(3,392)
Total Revenues	<u>18,972,926</u>	<u>18,972,926</u>	<u>19,505,014</u>	<u>-</u>	<u>19,505,014</u>	<u>532,088</u>
Expenditures:						
General government	2,611,620	2,596,093	1,967,752	428,874	2,396,626	199,467
Public safety	2,841,307	2,837,865	2,693,645	114,911	2,808,556	29,309
Education	9,635,157	9,620,157	9,510,198	-	9,510,198	109,959
Public works	1,646,403	1,741,630	1,643,539	87,421	1,730,960	10,670
Health and human services	492,281	493,471	441,402	16,488	457,890	35,581
Culture and recreation	670,718	670,904	575,729	56,918	632,647	38,257
Fringe and pension benefits	1,205,948	1,219,419	1,179,538	-	1,179,538	39,881
State and county tax assessments	39,735	39,756	39,735	-	39,735	21
Debt service	1,307,849	1,302,849	1,302,619	-	1,302,619	230
Total Expenditures	<u>20,451,018</u>	<u>20,522,144</u>	<u>19,354,157</u>	<u>\$ 704,612</u>	<u>20,058,769</u>	<u>463,375</u>
Other Financing Sources (Uses):						
Transfers in	1,763,609	1,763,609	1,810,334	-	1,810,334	(46,725)
Transfers out	<u>(2,325,977)</u>	<u>(2,575,977)</u>	<u>(2,593,260)</u>	-	<u>(2,593,260)</u>	<u>(17,283)</u>
Total Other Financing Sources (Uses)	<u>(562,368)</u>	<u>(812,368)</u>	<u>(782,926)</u>	-	<u>(782,926)</u>	<u>(64,008)</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(2,040,460)</u>	<u>(2,361,586)</u>	<u>\$ (632,069)</u>	-	<u>\$ (1,336,681)</u>	<u>\$ 931,455</u>
Other Budgetary Items:						
Prior year encumbrances	910,930	910,930	-	-	-	-
Free cash transfers	1,237,484	1,558,820	-	-	-	-
Other	<u>(107,954)</u>	<u>(108,164)</u>	-	-	-	-
Total Other Budgetary Items	<u>2,040,460</u>	<u>2,361,586</u>	-	-	-	-
Net Budget	<u>\$ -</u>	<u>\$ -</u>	-	-	-	-

See accompanying independent auditors' report.
 See notes to the required supplementary information of this schedule.

TOWN OF BLACKSTONE, MASSACHUSETTS

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

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund and enterprise funds. Financial orders are initiated by the Town Administrator, recommended by the Town Finance Committee and approved by the Town Meeting at the Town’s annual meeting in each spring. 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 must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance. The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2016, supplemental budgetary appropriations, were not significant. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by Town Meeting. Budgetary control is exercised through the Town’s accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2016, is as follows:

	<u>Accounting Differences</u>	<u>Perspective Differences</u>	<u>Total</u>
Revenues on a budgetary basis			\$ 19,505,014
Revenue recognition	\$ 7,301	\$ -	7,301
Stabilization revenue	-	116,588	116,588
Revenues on a GAAP basis	<u>\$ 7,301</u>	<u>\$ 116,588</u>	<u>\$ 19,628,903</u>
Expenditures on a budgetary basis			\$ 19,354,157
OPEB transfer recognition	\$ -	\$ 250,000	250,000
Debt service transfers	-	(1,011,710)	(1,011,710)
Expense recognition	(30,723)	-	(30,723)
Expenditures on a GAAP basis	<u>\$ (30,723)</u>	<u>\$ (761,710)</u>	<u>\$ 18,561,724</u>
Net transfers on a budgetary basis			\$ (782,926)
OPEB transfer recognition	\$ -	\$ 250,000	250,000
Stabilization transfers	-	146,035	146,035
Debt service transfers	-	(1,011,710)	(1,011,710)
Close and transfer recycling enterprise	-	30,551	30,551
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ (585,124)</u>	<u>\$ (1,368,050)</u>

Appropriation Deficits – During the fiscal year ended, there were no instances where expenditures exceeded appropriations in the general fund.



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**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 Blackstone, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blackstone, Massachusetts (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 19, 2017.

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
January 19, 2017