

**TOWN OF MILLIS, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Millis, 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 Millis, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Millis' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Millis, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages, and the supplementary information on page 47 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the

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Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 1, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
February 1, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Town of Millis, we offer readers this narrative overview and analysis of the financial activities of the Town of Millis for the fiscal year ended June 30, 2010.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 that are principally supported by taxes and intergovernmental revenues (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 include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer activities.

**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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 47,510,635 (i.e., net assets), a change of \$ (1,269,898) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,985,381, a change of \$ 875,059 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 855,897, a change of \$ 81,086 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 12,475,000, a change of \$ (1,300,000) in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 12,077	\$ 11,927	\$ 3,944	\$ 4,551	\$ 16,021	\$ 16,478
Capital assets	35,688	37,028	13,068	13,174	48,756	50,202
Total assets	<u>47,765</u>	<u>48,955</u>	<u>17,012</u>	<u>17,725</u>	<u>64,777</u>	<u>66,680</u>
Long-term liabilities outstanding	10,363	10,280	5,343	5,846	15,706	16,126
Other liabilities	1,333	1,297	227	477	1,560	1,774
Total liabilities	<u>11,696</u>	<u>11,577</u>	<u>5,570</u>	<u>6,323</u>	<u>17,266</u>	<u>17,900</u>
Net assets:						
Invested in capital assets, net	28,152	29,465	7,806	7,927	35,958	37,392
Restricted	2,505	1,988	-	-	2,505	1,988
Unrestricted	5,412	5,925	3,636	3,475	9,048	9,400
Total net assets	<u>\$ 36,069</u>	<u>\$ 37,378</u>	<u>\$ 11,442</u>	<u>\$ 11,402</u>	<u>\$ 47,511</u>	<u>\$ 48,780</u>

# **CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,396	\$ 2,351	\$ 1,945	\$ 1,709	\$ 4,341	\$ 4,060
Operating grants and contributions	8,476	7,970	-	-	8,476	7,970
Capital grants and contributions	336	263	-	-	336	263
General revenues:						
Property taxes	14,639	15,026	-	-	14,639	15,026
Excises	886	1,001	-	-	886	1,001
Penalties and interest on taxes	105	74	-	-	105	74
Grants and contributions not restricted to specific programs	910	7,876 (A)	-	-	910	7,876
Investment income	63	139	2	-	65	139
Other	97	867	-	-	97	867
<b>Total revenues</b>	<u>27,908</u>	<u>35,567</u>	<u>1,947</u>	<u>1,709</u>	<u>29,855</u>	<u>37,276</u>
<b>Expenses:</b>						
General government	2,023	2,263	-	-	2,023	2,263
Public safety	3,022	2,836	-	-	3,022	2,836
Education	16,976	16,044	-	-	16,976	16,044
Public works	1,744	2,316	-	-	1,744	2,316
Human services	215	203	-	-	215	203
Culture and recreation	474	410	-	-	474	410
Employee benefits	3,920	3,625 (B)	-	-	3,920	3,625
Intergovernmental	400	389	-	-	400	389
Interest on long-term debt	347	366	-	-	347	366
Water	-	-	1,056	1,018	1,056	1,018
Sewer	-	-	951	820	951	820
<b>Total expenses</b>	<u>29,121</u>	<u>28,452</u>	<u>2,007</u>	<u>1,838</u>	<u>31,128</u>	<u>30,290</u>
Change in net assets before permanent fund contributions	(1,213)	7,115	(60)	(129)	(1,273)	6,986
Transfers in (out)	(100)	(103)	100	103	-	-
Permanent fund contributions	4	3	-	-	4	3
Increase in net assets	(1,309)	7,015	40	(26)	(1,269)	6,989
Net assets - beginning of year (as restated)	<u>37,378</u>	<u>30,363</u>	<u>11,402</u>	<u>11,428</u>	<u>48,780</u>	<u>41,791</u>
Net assets - end of year	<u>\$ 36,069</u>	<u>\$ 37,378</u>	<u>\$ 11,442</u>	<u>\$ 11,402</u>	<u>\$ 47,511</u>	<u>\$ 48,780</u>

(A) MSBA projects finalized in FY09.

(B) Includes net OPEB obligation.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 47,510,635, a change of \$ (1,269,898) from the prior year.

The largest portion of net assets \$ 35,957,704 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net assets \$ 2,505,130 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 9,047,801 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a change in net assets of \$ (1,309,757). Key elements of this change are as follows (in thousands):

General fund expenditures in excess of revenues	\$ (36)
Stabilization major fund revenues over expenditures	13
MSBA annual change	(752)
Nonmajor funds revenues over expenditures	789
Excess depreciation over principal maturities	(501)
OPEB liability change	(923)
Other	101
Total	<u>\$ (1,309)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ 39,859. Key elements of this change are as follows (in thousands):

Water operations	\$ 138
Sewer operations	<u>(98)</u>
Total	<u>\$ 40</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,985,381, a change of \$ 875,059 in comparison with the prior year. Most of this change was attributable to the following (in thousands):

General fund expenditures and transfers out in excess of revenues and transfers in	\$ (385)
Stabilization major fund revenues and transfers in over expenditures and transfers out	495
Nonmajor funds revenues and other financing sources over expenditures and transfers out	<u>765</u>
Total	\$ <u><u>875</u></u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 855,897, while total fund balance was \$ 1,486,267. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3.54 percent of total general fund expenditures, while total fund balance represents 6.14 percent of that same amount.

The fund balance of the general fund changed by \$ (385,113) during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash, overlay and other sources	\$ (1,238)
Revenues in excess of budget	154
Budgetary appropriation turnbacks by departments	468
Excess tax collections over budget	40
Excess of current encumbered appropriations to be spent in subsequent year over prior year encumbrances spent in current year	<u>191</u>
Total	\$ <u><u>(385)</u></u>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 3,635,792, a change of \$ 161,225 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 256,477. Major reasons for these amendments include (in thousands):

- \$ 35 increase in employee benefit and other insurances funded by free cash.
- \$ 46 increase in school department expenses funded by free cash.
- \$ 75 increase in snow and ice expenditures funded by free cash.
- \$ 100 net increases in various department expenses funded by free cash and transfers in.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 48,755,931 (net of accumulated depreciation), a change of \$ (1,445,600) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events included the following (in thousands):

- \$ 146 Purchase of school computers and equipment.
- \$ 52 Purchase of public safety vehicles of \$ 52.
- \$ 599 Infrastructure construction of \$ 599.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 12,475,000, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Millis' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Finance Director  
Town of Millis, Massachusetts  
900 Main Street  
Millis, Massachusetts 02054

## TOWN OF MILLIS, MASSACHUSETTS

## STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 5,624,804	\$ 2,156,854	\$ 7,781,658
Investments	126,931	-	126,931
Receivables, net of allowance for uncollectibles:			
Property taxes	502,294	-	502,294
Excises	65,247	-	65,247
User fees	-	589,789	589,789
Departmental and other	126,345	-	126,345
Intergovernmental	783,555	-	783,555
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	131,793	-	131,793
Betterments	23,431	1,196,843	1,220,274
Intergovernmental	4,692,596	-	4,692,596
Capital assets:			
Land and construction in progress	2,505,310	3,148,774	5,654,084
Other capital assets, net of accumulated depreciation	<u>33,182,502</u>	<u>9,919,345</u>	<u>43,101,847</u>
<b>TOTAL ASSETS</b>	<b>47,764,808</b>	<b>17,011,605</b>	<b>64,776,413</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	337,431	87,347	424,778
Accrued liabilities	420,859	66,246	487,105
Notes payable	476,725	73,606	550,331
Tax refunds payable	96,056	-	96,056
Other current liabilities	1,746	-	1,746
Current portion of long-term liabilities:			
Bonds payable	770,000	490,000	1,260,000
Compensated absence	24,188	628	24,816
Landfill	14,325	-	14,325
Capital Leases	59,937	-	59,937
Noncurrent:			
Bonds payable, net of current portion	6,447,000	4,768,000	11,215,000
Compensated absence, net of current portion	459,575	11,943	471,518
Landfill, net of current portion	321,087	-	321,087
Capital Leases, net of current portion	262,998	-	262,998
Net OPEB obligation	<u>2,003,912</u>	<u>72,169</u>	<u>2,076,081</u>
<b>TOTAL LIABILITIES</b>	<b>11,695,839</b>	<b>5,569,939</b>	<b>17,265,778</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	28,151,830	7,805,874	35,957,704
Restricted for:			
Grants and other statutory restrictions	2,330,392	-	2,330,392
Permanent funds:			
Nonexpendable	164,510	-	164,510
Expendable	10,228	-	10,228
Unrestricted	<u>5,412,009</u>	<u>3,635,792</u>	<u>9,047,801</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>36,068,969</u></b>	<b>\$ <u>11,441,666</u></b>	<b>\$ <u>47,510,635</u></b>

## TOWN OF MILLIS, MASSACHUSETTS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-	
	Expenses	Services	Grants and	Grants and	Activities	Type	Total
			Contributions	Contributions		Activities	
<b>Governmental Activities:</b>							
General government	\$ 2,022,520	\$ 181,372	\$ 243,836	\$ 37,341	\$ (1,559,971)	\$ -	\$ (1,559,971)
Public safety	3,022,029	516,470	48,798	-	(2,456,761)	-	(2,456,761)
Education	16,976,203	1,076,087	8,121,419	-	(7,778,697)	-	(7,778,697)
Public works	1,744,525	398,910	24,499	298,867	(1,022,249)	-	(1,022,249)
Health and human services	214,713	56,354	12,380	-	(145,979)	-	(145,979)
Culture and recreation	473,630	166,328	24,858	-	(282,444)	-	(282,444)
Employee benefits	3,919,640	-	-	-	(3,919,640)	-	(3,919,640)
Intergovernmental	400,277	-	-	-	(400,277)	-	(400,277)
Interest	347,424	-	-	-	(347,424)	-	(347,424)
Total Governmental Activities	29,120,961	2,395,521	8,475,790	336,208	(17,913,442)	-	(17,913,442)
<b>Business-Type Activities:</b>							
Water services	1,056,002	1,077,764	-	-	-	21,762	21,762
Sewer services	950,952	866,979	-	-	-	(83,973)	(83,973)
Total Business-Type Activities	2,006,954	1,944,743	-	-	-	(62,211)	(62,211)
Total	\$ 31,127,915	\$ 4,340,264	\$ 8,475,790	\$ 336,208	(17,913,442)	(62,211)	(17,975,653)
<b>General Revenues, Transfers, and Contributions:</b>							
Property taxes					14,638,964	-	14,638,964
Excises					886,325	-	886,325
Penalties, interest and other taxes					105,482	-	105,482
Grants and contributions not restricted to specific programs					909,935	-	909,935
Investment income					62,775	1,865	64,640
Miscellaneous					408,232	-	408,232
Loss on disposal of capital assets					(311,288)	-	(311,288)
Transfers, net					(100,205)	100,205	-
Permanent fund contributions					3,465	-	3,465
Total general revenues, transfers, and contributions					16,603,685	102,070	16,705,755
Change in Net Assets					(1,309,757)	39,859	(1,269,898)
<b>Net Assets:</b>							
Beginning of year, as restated					37,378,726	11,401,807	48,780,533
End of year					\$ 36,068,969	\$ 11,441,666	\$ 47,510,635

See notes to financial statements.

## TOWN OF MILLIS, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 1,956,864	\$ 1,210,439	\$ 2,457,501	\$ 5,624,804
Investments	126,931	-	-	126,931
Receivables:				
Property taxes	768,060	-	2,166	770,226
Excises	149,760	-	-	149,760
Departmental and other	-	-	126,345	126,345
Intergovernmental	-	-	314,295	314,295
Betterments	-	-	23,431	23,431
TOTAL ASSETS	<u>\$ 3,001,615</u>	<u>\$ 1,210,439</u>	<u>\$ 2,923,738</u>	<u>\$ 7,135,792</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 288,605	\$ -	\$ 48,826	\$ 337,431
Accrued liabilities	335,452	-	-	335,452
Notes payable	-	-	120,000	120,000
Deferred revenues	793,489	-	466,237	1,259,726
Tax refunds payable	96,056	-	-	96,056
Other current liabilities	1,746	-	-	1,746
TOTAL LIABILITIES	1,515,348	-	635,063	2,150,411
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	476,020	-	-	476,020
Expenditures	154,350	200,000	331,473	685,823
Perpetual (nonexpendable) permanent funds	-	-	164,510	164,510
Unreserved:				
Undesignated, reported in:				
General fund	855,897	-	-	855,897
Special revenue funds	-	1,010,439	1,776,943	2,787,382
Capital project funds	-	-	5,521	5,521
Permanent funds	-	-	10,228	10,228
TOTAL FUND BALANCES	<u>1,486,267</u>	<u>1,210,439</u>	<u>2,288,675</u>	<u>4,985,381</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,001,615</u>	<u>\$ 1,210,439</u>	<u>\$ 2,923,738</u>	<u>\$ 7,135,792</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

<b>Total governmental fund balances</b>	\$ 4,985,381
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	35,687,812
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,039,074
<ul style="list-style-type: none"><li>• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore are not reported in the governmental funds</li></ul>	5,161,856
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(85,407)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable and net OPEB obligations, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(10,719,747)</u>
<b>Net assets of governmental activities</b>	\$ <u>36,068,969</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 14,489,032	\$ -	\$ 103,603	\$ 14,592,635
Excises	904,539	-	-	904,539
Penalties, interest and other taxes	105,482	-	-	105,482
Charges for services	257,899	-	1,926,488	2,184,387
Intergovernmental	7,804,383	-	2,283,924	10,088,307
Licenses and permits	174,255	-	-	174,255
Fines and forfeitures	25,113	-	-	25,113
Investment income	40,383	12,830	9,563	62,776
Contributions	-	-	306,724	306,724
Miscellaneous	357,647	-	50,585	408,232
Total Revenues	<u>24,158,733</u>	<u>12,830</u>	<u>4,680,887</u>	<u>28,852,450</u>
<b>Expenditures:</b>				
Current:				
General government	1,736,675	-	122,604	1,859,279
Public safety	2,553,544	-	369,711	2,923,255
Education	13,897,318	-	2,795,066	16,692,384
Public works	928,046	-	414,472	1,342,518
Health and human services	169,232	-	41,128	210,360
Culture and recreation	318,301	-	149,022	467,323
Employee benefits	2,996,599	-	-	2,996,599
Debt service	1,195,191	-	-	1,195,191
Intergovernmental	400,277	-	-	400,277
Total Expenditures	<u>24,195,183</u>	<u>-</u>	<u>3,892,003</u>	<u>28,087,186</u>
Excess (deficiency) of revenues over expenditures	(36,450)	12,830	788,884	765,264
<b>Other Financing Sources (Uses):</b>				
Proceeds from notes	-	-	210,000	210,000
Transfers in	246,369	481,827	13,000	741,196
Transfers out	(595,032)	-	(246,369)	(841,401)
Total Other Financing Sources (Uses)	<u>(348,663)</u>	<u>481,827</u>	<u>(23,369)</u>	<u>109,795</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(385,113)	494,657	765,515	875,059
Fund Equity, at Beginning of Year, as restated	<u>1,871,380</u>	<u>715,782</u>	<u>1,523,160</u>	<u>4,110,322</u>
Fund Equity, at End of Year	<u>\$ 1,486,267</u>	<u>\$ 1,210,439</u>	<u>\$ 2,288,675</u>	<u>\$ 4,985,381</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 875,059</b>																		
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table> <tr> <td>Capital outlay purchases</td><td style="text-align: right;">607,286</td></tr> <tr> <td>Depreciation</td><td style="text-align: right;">(1,635,975)</td></tr> <tr> <td>Gain (Loss) on disposition of assets</td><td style="text-align: right;">(311,288)</td></tr> </table> </li> <li>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 (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <div style="text-align: right;">122,270</div> </li> <li>Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance projects, do not provide current financial resources, and therefore, are not reported as revenues in the governmental funds. <div style="text-align: right;">(752,022)</div> </li> <li>The issuance of long-term debt (e.g., bonds and leases) 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 transaction, however, has any effect on net assets: <table> <tr> <td>Repayments of bonds and notes</td><td style="text-align: right;">1,134,533</td></tr> <tr> <td>Note issuances</td><td style="text-align: right;">(506,725)</td></tr> </table> </li> <li>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">9,960</div> </li> <li>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Other post-employment benefits liability</td><td style="text-align: right;">(923,042)</td></tr> <tr> <td>Increase in compensated absence liability</td><td style="text-align: right;">(16,278)</td></tr> <tr> <td>Decrease in landfill liability</td><td style="text-align: right;">27,850</td></tr> <tr> <td>Change in capital leases</td><td style="text-align: right;">58,615</td></tr> </table> </li> </ul>	Capital outlay purchases	607,286	Depreciation	(1,635,975)	Gain (Loss) on disposition of assets	(311,288)	Repayments of bonds and notes	1,134,533	Note issuances	(506,725)	Other post-employment benefits liability	(923,042)	Increase in compensated absence liability	(16,278)	Decrease in landfill liability	27,850	Change in capital leases	58,615	
Capital outlay purchases	607,286																		
Depreciation	(1,635,975)																		
Gain (Loss) on disposition of assets	(311,288)																		
Repayments of bonds and notes	1,134,533																		
Note issuances	(506,725)																		
Other post-employment benefits liability	(923,042)																		
Increase in compensated absence liability	(16,278)																		
Decrease in landfill liability	27,850																		
Change in capital leases	58,615																		
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(1,309,757)</u></b>																		

See notes to financial statements.

## TOWN OF MILLIS, MASSACHUSETTS

## GENERAL FUND

## STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 14,731,032	\$ 14,448,270	\$ 14,448,270	\$ -
Excise taxes	852,000	852,000	904,539	52,539
Interest, penalties and other taxes	93,750	93,750	126,816	33,066
Licenses and permits	132,003	132,003	174,255	42,252
Fines and forfeitures	23,875	23,875	25,113	1,238
Charges for services	212,888	212,888	257,899	45,011
Intergovernmental	5,215,258	5,215,258	5,196,053	(19,205)
Interest earnings	50,000	50,000	40,383	(9,617)
Miscellaneous	295,152	349,096	357,648	8,552
Transfers in	228,685	229,668	229,668	-
Total Revenues and Other Sources	21,834,643	21,606,808	21,760,644	153,836
<b>Expenditures and Other Uses:</b>				
General government	1,686,041	1,787,700	1,702,948	84,752
Public safety	2,622,245	2,648,515	2,522,340	126,175
Education	11,340,593	11,386,258	11,370,721	15,537
Public works	1,048,403	1,133,403	1,081,245	52,158
Health and human services	172,613	173,713	169,203	4,510
Culture and recreation	329,894	329,894	305,752	24,142
Employee benefits	3,179,903	3,176,686	3,051,797	124,889
Intergovernmental	411,245	411,245	400,277	10,968
Debt service	1,303,026	1,303,026	1,278,696	24,330
Transfers out	494,827	494,827	494,827	-
Total Expenditures and Other Uses	22,588,790	22,845,267	22,377,806	467,461
Excess (deficiency) of revenues over expenditures	(754,147)	(1,238,459)	(617,162)	621,297
<b>Other Financing Source</b>				
Use of free cash				
Non-recurring capital costs	191,922	477,263	-	(477,263)
Recurring costs	33,500	194,305	-	(194,305)
Use of MTBE Settlement				
Non-recurring transfer to stabilization fund	481,827	481,827	-	(481,827)
Recurring costs	46,898	46,898	-	(46,898)
Overlay surplus	-	38,166	-	(38,166)
Total Other Source	754,147	1,238,459	-	(1,238,459)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (617,162)	\$ (617,162)

See notes to financial statements.

## TOWN OF MILLIS, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>ASSETS</u></b>			
Current:			
Cash and short-term investments	\$ 390,292	\$ 1,766,562	\$ 2,156,854
User fees, net of allowance for uncollectibles	319,722	270,067	589,789
Betterment fees, net of allowance for uncollectibles	-	1,196,843	1,196,843
Total current assets	710,014	3,233,472	3,943,486
Noncurrent:			
Capital assets:			
Land and construction in progress	1,375,503	1,773,271	3,148,774
Other capital assets, net of accumulated depreciation	5,381,563	4,537,782	9,919,345
Total noncurrent assets	6,757,066	6,311,053	13,068,119
<b>TOTAL ASSETS</b>	<b>7,467,080</b>	<b>9,544,525</b>	<b>17,011,605</b>
<b><u>LIABILITIES</u></b>			
Current:			
Warrants payable	11,996	75,351	87,347
Accrued liabilities	33,343	32,903	66,246
Notes payable	-	73,606	73,606
Current portion of long-term liabilities:			
Bonds payable	265,000	225,000	490,000
Compensated absence	386	242	628
Total current liabilities	310,725	407,102	717,827
Noncurrent:			
Bonds payable, net of current portion	2,236,000	2,532,000	4,768,000
Compensated absence, net of current portion	7,337	4,606	11,943
Net OPEB obligation	39,452	32,717	72,169
Total noncurrent liabilities	2,282,789	2,569,323	4,852,112
<b>TOTAL LIABILITIES</b>	<b>2,593,514</b>	<b>2,976,425</b>	<b>5,569,939</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	4,276,334	3,529,540	7,805,874
Unrestricted	597,232	3,038,560	3,635,792
<b>TOTAL NET ASSETS</b>	<b>\$ 4,873,566</b>	<b>\$ 6,568,100</b>	<b>\$ 11,441,666</b>

See notes to financial statements.

## TOWN OF MILLIS, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 1,066,914	\$ 860,037	\$ 1,926,951
Other	<u>10,850</u>	<u>6,942</u>	<u>17,792</u>
Total Operating Revenues	1,077,764	866,979	1,944,743
<b>Operating Expenses:</b>			
Operating expenses	739,950	681,343	1,421,293
Depreciation	<u>204,870</u>	<u>144,895</u>	<u>349,765</u>
Total Operating Expenses	<u>944,820</u>	<u>826,238</u>	<u>1,771,058</u>
Operating Income	132,944	40,741	173,685
<b>Nonoperating Revenues (Expenses):</b>			
Interest income	961	904	1,865
Interest expense	<u>(111,182)</u>	<u>(124,714)</u>	<u>(235,896)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(110,221)</u>	<u>(123,810)</u>	<u>(234,031)</u>
Income (Loss) Before Transfers	22,723	(83,069)	(60,346)
<b>Transfers:</b>			
Transfers in	115,205	-	115,205
Transfers out	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Change in Net Assets	137,928	(98,069)	39,859
Net Assets at Beginning of Year, as restated	<u>4,735,638</u>	<u>6,666,169</u>	<u>11,401,807</u>
Net Assets at End of Year	<u>\$ 4,873,566</u>	<u>\$ 6,568,100</u>	<u>\$ 11,441,666</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 1,050,271	\$ 986,948	\$ 2,037,219
Payments to vendors and employees	<u>(759,846)</u>	<u>(859,320)</u>	<u>(1,619,166)</u>
Net Cash Provided By Operating Activities	290,425	127,628	418,053
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfer in	115,205	-	115,205
Transfers out	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Net Cash Provided By Noncapital Financing Activities	115,205	(15,000)	100,205
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	-	(244,142)	(244,142)
Principal payments on bonds and notes	(305,000)	(317,106)	(622,106)
Proceeds from notes	-	73,606	73,606
Interest expense	<u>(114,972)</u>	<u>(127,712)</u>	<u>(242,684)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(419,972)</u>	<u>(615,354)</u>	<u>(1,035,326)</u>
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>961</u>	<u>904</u>	<u>1,865</u>
Net Cash Provided By Investing Activities	<u>961</u>	<u>904</u>	<u>1,865</u>
Net Change in Cash and Short-Term Investments	(13,381)	(501,822)	(515,203)
Cash and Short-Term Investments, Beginning of Year	<u>403,673</u>	<u>2,268,384</u>	<u>2,672,057</u>
Cash and Short-Term Investments, End of Year	<u>\$ 390,292</u>	<u>\$ 1,766,562</u>	<u>\$ 2,156,854</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>			
Operating income	\$ 132,944	\$ 40,741	\$ 173,685
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	204,870	144,895	349,765
Changes in assets and liabilities:			
User fees	(27,494)	119,969	92,475
Warrants and accounts payable	(31,602)	(192,976)	(224,578)
Compensated absence, net of current portion	(5,025)	(3,333)	(8,358)
Other post employment benefits	<u>16,732</u>	<u>18,332</u>	<u>35,064</u>
Net Cash Provided By Operating Activities	<u>\$ 290,425</u>	<u>\$ 127,628</u>	<u>\$ 418,053</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2010

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 136,627	\$ 64,078
Total Assets	136,627	64,078
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	12,125	2,000
Other liabilities	<u>-</u>	<u>62,078</u>
Total Liabilities	<u>12,125</u>	<u>64,078</u>
<b><u>NET ASSETS</u></b>		
Total net assets held in trust	\$ <u><u>124,502</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

	Private Purpose <u>Trust Funds</u>
<b>Additions:</b>	
Investment Income (Loss)	\$ 2,841
Contributions	<u>6,450</u>
Total additions	9,291
<b>Deductions:</b>	
Education	<u>22,575</u>
Total deductions	<u>22,575</u>
Net increase (decrease)	(13,284)
<b>Net assets:</b>	
Beginning of year	<u>137,786</u>
End of year	<u><u>\$ 124,502</u></u>

See notes to financial statements.

## TOWN OF MILLIS, MASSACHUSETTS

### Notes to Financial Statements

#### 1. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Millis (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB-39 criteria of component units.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

###### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual govern-

mental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *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.
- The *Stabilization fund* accounts for financial resources held in reserve for capital and other future spending purposes.

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 of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Fund
- Sewer Fund

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

*D. Cash and Short-Term Investments*

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 8,604.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

#### *H. Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### *J. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### *K. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles 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.

## **2. Stewardship, Compliance, and Accountability**

### **A. Budgetary Information**

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

### **B. Budgetary Basis**

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

### **C. Budget/GAAP Reconciliation**

The budgetary data for the general funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund is presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 24,158,733	\$ 24,195,183
Other financing sources/uses (GAAP basis)	<u>246,369</u>	<u>595,032</u>
Subtotal (GAAP Basis)	24,405,102	24,790,215
Adjust tax revenue to accrual basis	(40,762)	-
To reverse expenditures of prior year appropriation carryforwards	-	(244,347)
To book current year appropria- tion carryforwards	-	435,634
To record use of free cash and other sources	1,238,459	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(2,586,996)	(2,586,996)
To reverse nonbudgeted activity	<u>(16,700)</u>	<u>(16,700)</u>
Budgetary basis	\$ <u>22,999,103</u>	\$ <u>22,377,806</u>

*D. Deficit Fund Equity*

The following funds had deficits as of June 30, 2010:

Special Revenue Funds:

Off-Duty Detail	\$ (40,711)
E-911 Training	\$ (1,485)
Cable Access Coordinator Gift	\$ (1,534)
BDH CDC H1N1 Grant	\$ (9,423)
Chapter 90	\$ (248,978)

Capital Project Funds:

Causeway St. Culvert Improvement	\$ (105,933)
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The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

### 3. **Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2010, none of the Town's bank balance of \$ 8,214,698 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name.

### 4. **Investments**

#### A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts general law, chapter 44, section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year end for each investment of the Town (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Certificates of deposits	\$ <u>126,931</u>	N/A	\$ <u>126,931</u>
Total investments	\$ <u><u>126,931</u></u>		\$ <u><u>126,931</u></u>

#### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral

securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town does not have any exposure to custodial credit risk.

*C. Concentration of Credit Risk*

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Middlesex Savings Bank	\$ 102,843
St. Mary's Credit Union	\$ 24,088

*D. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
Debt Related Securities:			
Certificates of deposit	\$ <u>126,931</u>	\$ <u>102,843</u>	\$ <u>24,088</u>
Total	\$ <u><u>126,931</u></u>	\$ <u><u>102,843</u></u>	\$ <u><u>24,088</u></u>

*E. Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

The Town does not have any exposure to foreign currency risk.

## 5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 350	
2009	125	
2008	8	
Previous	<u>30</u>	
		513
Personal Property		
2010	10	
2009	7	
2008	5	
2007	5	
Prior	<u>5</u>	
		32
Tax Liens and foreclosures		<u>223</u>
Total		<u>\$ 768</u>

## 6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 136	\$ -
Excises	85	-
Betterments	-	133
Utilities	-	34

## 7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

Future receipt of MSBA payments are as follows:

2011	\$ 469,260
2012	469,260
2013	469,260
2014	469,260
2015	469,260
2016-2020	2,346,300
2021-2022	<u>469,256</u>
Total	<u>\$ 5,161,856</u>

## 8. Betterment Receivable

Betterment represents special assessments billed to property owners for sewer infrastructure improvements.

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 18,425	\$ -	\$ -	\$ 18,425
Machinery, equipment, and furnishings	6,046	252	(966)	5,332
Infrastructure	<u>24,335</u>	<u>355</u>	<u>-</u>	<u>24,690</u>
Total capital assets, being depreciated	48,806	607	(966)	48,447
Less accumulated depreciation for:				
Buildings and improvements	(6,199)	(522)	-	(6,721)
Machinery, equipment, and furnishings	(3,321)	(463)	654	(3,130)
Infrastructure	<u>(4,763)</u>	<u>(651)</u>	<u>-</u>	<u>(5,414)</u>
Total accumulated depreciation	<u>(14,283)</u>	<u>(1,636)</u>	<u>654</u>	<u>(15,265)</u>
Total capital assets, being depreciated, net	34,523	(1,029)	(312)	33,182
Capital assets, not being depreciated:				
Land	<u>2,505</u>	<u>-</u>	<u>-</u>	<u>2,505</u>
Total capital assets, not being depreciated	<u>2,505</u>	<u>-</u>	<u>-</u>	<u>2,505</u>
Governmental activities capital assets, net	<u>\$ 37,028</u>	<u>\$ (1,029)</u>	<u>\$ (312)</u>	<u>\$ 35,687</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,454	\$ -	\$ -	\$ 2,454
Machinery, equipment, and furnishings	1,550	-	-	1,550
Infrastructure	<u>10,096</u>	<u>605</u>	<u>-</u>	<u>10,701</u>
Total capital assets, being depreciated	14,100	605	-	14,705
Less accumulated depreciation for:				
Buildings and improvements	(1,288)	(52)	-	(1,340)
Machinery, equipment, and furnishings	(988)	(40)	-	(1,028)
Infrastructure	<u>(2,160)</u>	<u>(258)</u>	<u>-</u>	<u>(2,418)</u>
Total accumulated depreciation	<u>(4,436)</u>	<u>(350)</u>	<u>-</u>	<u>(4,786)</u>
Total capital assets, being depreciated, net	9,664	255	-	9,919
Capital assets, not being depreciated:				
Land	1,376	-	-	1,376
Construction in progress	<u>2,134</u>	<u>-</u>	<u>(361)</u>	<u>1,773</u>
Total capital assets, not being depreciated	<u>3,510</u>	<u>-</u>	<u>(361)</u>	<u>3,149</u>
Business-type activities capital assets, net	<u>\$ 13,174</u>	<u>\$ 255</u>	<u>\$ (361)</u>	<u>\$ 13,068</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:

General government	\$ 146
Public safety	173
Education	520
Public works	787
Health and human services	2
Culture and recreation	<u>8</u>
Total depreciation expense - governmental activities	\$ <u><u>1,636</u></u>

Business-Type Activities:

Water	\$ 205
Sewer	<u>145</u>
Total depreciation expense - business-type activities	\$ <u><u>350</u></u>

**10. Warrants Payable**

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law.

**11. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

**12. Notes Payable**

The Town had the following notes outstanding at June 30, 2010:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/10</u>
Modular classrooms	2.50%	07/03/09	07/02/10	\$ 135,000
Ambulance	2.50%	07/16/09	07/16/10	135,000
Title V Septic	4.75%	08/28/09	08/27/10	26,725
Landfill	2.75%	05/07/10	05/06/11	60,000
Causeway St. Culvert	1.55%	12/14/09	12/14/10	120,000
SCADA	2.75%	01/29/10	01/28/11	<u>73,606</u>
Total				\$ <u><u>550,331</u></u>

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning <u>of Year</u>	New <u>Issues</u>	<u>Maturities</u>	Balance End of <u>Year</u>
Governmental:				
Modular classrooms	\$ 148,000	\$ 135,000	\$ (148,000)	\$ 135,000
Ambulance	150,000	135,000	(150,000)	135,000
Title V Septic	35,300	26,725	(35,300)	26,725
Landfill	31,233	60,000	(31,233)	60,000
Causeway St. Culvert	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Subtotal	364,533	476,725	(364,533)	476,725
Enterprise:				
SCADA	<u>92,106</u>	<u>73,606</u>	<u>(92,106)</u>	<u>73,606</u>
Total	\$ <u><u>456,639</u></u>	\$ <u><u>550,331</u></u>	\$ <u><u>(456,639)</u></u>	\$ <u><u>550,331</u></u>

### 13. Long-Term Debt

#### A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
<u>Governmental Activities:</u>	<u>Through</u>		<u>as of</u>
			<u>6/30/10</u>
Community Center and Town Hall	07/01/15	4.76%	\$ 705,000
Ambulance bay	07/01/15	4.76%	55,000
Landfill capping	07/01/17	4.76%	360,000
Land acquisition	10/15/18	4.46%	306,000
Land acquisition	10/15/17	4.43%	120,000
Building remodeling school	10/15/20	4.53%	4,686,000
DPW garage	08/15/18	3.97%	190,000
Roads	08/15/13	3.69%	35,000
Public way	10/01/15	3.99%	330,000
Surface drain	10/01/15	3.91%	<u>430,000</u>
Total Governmental Activities:			<u>\$ 7,217,000</u>

	Serial	Interest	Amount
	Maturities	Rate(s) %	Outstanding
<u>Business-Type Activities:</u>	<u>Through</u>		<u>as of</u>
			<u>6/30/10</u>
Well field development	10/15/20	4.53%	\$ 187,000
Well field development	10/15/19	4.49%	647,300
Well field development	10/15/19	4.94%	26,700
Water	08/15/13	3.72%	80,000
Water	08/15/13	3.72%	42,000
Well field development	08/15/23	4.28%	189,000
Well field development	08/15/23	4.27%	1,144,000
Water meters	08/15/12	3.65%	100,000
Water mains - Pleasant St.	10/01/16	3.93%	85,000
Sewer improvements	07/01/17	4.76%	460,000
Sewer improvements	10/15/20	4.53%	822,000
Sewer improvements	10/01/25	3.91%	<u>1,475,000</u>
Total Business-Type Activities:			<u>\$ 5,258,000</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 770,000	\$ 314,503	\$ 1,084,503
2012	770,000	281,561	1,051,561
2013	765,000	248,214	1,013,214
2014	755,000	214,555	969,555
2015	750,000	180,662	930,662
2016-2020	2,831,000	442,342	3,273,342
2021-2025	551,000	27,937	578,937
2026	25,000	500	25,500
Total	<u>\$ 7,217,000</u>	<u>\$ 1,710,274</u>	<u>\$ 8,927,274</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 490,000	\$ 219,271	\$ 709,271
2012	490,000	199,130	689,130
2013	475,000	179,007	654,007
2014	445,000	159,635	604,635
2015	410,000	141,400	551,400
2016-2020	1,884,000	435,707	2,319,707
2021-2025	894,000	115,067	1,009,067
2026-2027	170,000	6,800	176,800
Total	<u>\$ 5,258,000</u>	<u>\$ 1,456,017</u>	<u>\$ 6,714,017</u>

### C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/09</u>	Additions	Reductions	Total Balance <u>6/30/10</u>	Less Current Portion <u>6/30/10</u>	Equals Long-Term Portion <u>6/30/10</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 7,987	\$ -	\$ (770)	\$ 7,217	\$ (770)	\$ 6,447
Other:						
Accrued employee benefits	467	24	(8)	483	(24)	459
Landfill closure	363	-	(28)	335	(14)	321
Capital leases	382	-	(59)	323	(60)	263
Net OPEB obligation	1,081	1,648	(725)	2,004	-	2,004
Totals	<u>\$ 10,280</u>	<u>\$ 1,672</u>	<u>\$ (1,590)</u>	<u>\$ 10,362</u>	<u>\$ (868)</u>	<u>\$ 9,494</u>

	Total Balance <u>7/1/09</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/10</u>	Less Current <u>Portion</u>	Long-Term Portion <u>6/30/10</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 5,788	\$ -	\$ (530)	\$ 5,258	\$ (490)	\$ 4,768
Other:						
Accrued employee benefits	21	-	(8)	13	(1)	12
Net OPEB obligation	<u>37</u>	<u>38</u>	<u>(3)</u>	<u>72</u>	<u>-</u>	<u>72</u>
Totals	<u>\$ 5,846</u>	<u>\$ 38</u>	<u>\$ (541)</u>	<u>\$ 5,343</u>	<u>\$ (491)</u>	<u>\$ 4,852</u>

#### 14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on a portion of its closed landfill site and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town reported \$ 335,412 as landfill closure and postclosure care liability at June 30, 2010. This amount is based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### 15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

#### 16. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

## **17. Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

## **18. Post-Employment Health Care and Life Insurance Benefits**

### **Other Post-Employment Benefits**

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

#### **A. Plan Description**

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by

Chapter 32 of the Massachusetts General Laws. As of July 1, 2008, the actuarial valuation date, approximately 102 retirees and 235 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute various percentages of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2008.

Annual Required Contribution (ARC)	\$ 1,685,751
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	1,685,751
Contributions made	<u>(727,646)</u>
Increase in net OPEB obligation	958,105
Net OPEB obligation - beginning of year	<u>1,117,976</u>
Net OPEB obligation - end of year	<u>\$ 2,076,081</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 1,685,751	43.0%	\$ 2,076,081
2009	\$ 1,771,976	36.0%	\$ 1,117,976

The Town's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item.

*E. Funded Status and Funding Progress*

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 18,166,278
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 18,166,278</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 11,824,120</u>
UAAL as a percentage of covered payroll	<u>153.60%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and 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.

In the July 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4 % investment rate of return and an initial annual healthcare cost trend rate of 3.19 % which increases to 9% in FY10 which then decreases to a 5% long-term rate for all healthcare benefits after five years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.50 %.

## **19. Pension Plan**

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50), Accounting for Pensions by State and Local Government Employers, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Norfolk County Retirement System at 480 Neponset Street, Building 15, Canton, MA 02021.

### **A. Plan Description**

The Town contributes to the Norfolk County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Retirement System at the Norfolk County Retirement System at 480 Neponset Street, Building 15, Canton, MA 02021.

### **B. Funding Policy**

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2010, 2009, and 2008 were \$ 904,432, \$ 838,049,

and \$ 668,709, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

D. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

\*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The Town's current year covered payroll for teachers and administrators was \$ 7,885,261.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 2,586,996 to the MTRS on behalf of the Town. This is included in the

education expenditures and intergovernmental revenues in the general fund.

## **20. MBTA Paratransit Expenses**

The Town participates in an expense reimbursement program provided by the Massachusetts Bay Transportation Authority (MBTA) related to new paratransit service provided in communities currently without paratransit service. The program requires audited financial statement footnote disclosure to document actual costs paid by the community.

The following summarizes payroll expenses paid by the Town of Millis during fiscal year 2010 related to the program, and charged to the general fund Council on Aging appropriation and Council on Aging Transportation Revolving:

<u>Month</u>	<u>Amount</u>
July	\$ 522
August	486
September	492
October	378
November	496
December	537
January	414
February	555
March	474
April	492
May	480
June	<u>576</u>
Total	\$ <u><u>5,902</u></u>

## **21. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

## 22. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/09 (as restated)
General Fund	\$ 1,871,380	\$ -	\$ 1,871,380
Stabilization fund	-	715,782	715,782
Sewer Betterments	1,495,297	(1,495,297) <sup>(1)</sup>	-
Nonmajor funds	<u>2,238,942</u>	<u>(715,782)</u>	<u>1,523,160</u>
Total	\$ <u>5,605,619</u>	\$ <u>(1,495,297)</u>	\$ <u>4,110,322</u>

<sup>(1)</sup> Amounts transferred to Sewer Enterprise fund.

## 23. Beginning Fund Balance Net Assets Restatement

The beginning (July 1, 2009) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental <u>Activities</u>	<u>Business-Type Activities Enterprise Funds</u>		<u>Total</u>
		<u>Water Fund</u>	<u>Sewer Fund</u>	
As previously reported	\$ 40,243,464	\$ 4,735,638	\$ 3,801,431	\$ 48,780,533
Reclass Sewer Betterment Fund from Governmental Activities to Business-Type Activities:				
Prior year fund balance	(1,495,297)	-	1,495,297	-
Prior year deferred revenue elimination and tax allowance	<u>(1,369,441)</u>	<u>-</u>	<u>1,369,441</u>	<u>-</u>
As restated	\$ <u>37,378,726</u>	\$ <u>4,735,638</u>	\$ <u>6,666,169</u>	\$ <u>48,780,533</u>

**TOWN OF MILLIS, MASSACHUSETTS  
SCHEDULE OF FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010  
(Unaudited)**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/08	\$ -	\$ 18,166,278	\$ 18,166,278	0.0%	\$ 11,824,120	153.6%

See Independent Auditors' Report.