

TOWN OF MILLIS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 10, 2013 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

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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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information be presented to supplement the basic financial statements. Such information, although not a 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 evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.
January 10, 2013

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, 2012.

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 \$ 47,036,464 (i.e., net assets), a change of \$ (1,358,642) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,998,785, a change of \$ (2,143,515) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 897,139, a change of \$ 138,585 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 6,090,000, a change of \$ 877,000 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 13,511	\$ 10,381	\$ 3,662	\$ 3,918	\$ 17,173	\$ 14,299
Capital assets	37,474	35,799	12,431	12,724	49,905	48,523
Total assets	<u>50,985</u>	<u>46,180</u>	<u>16,093</u>	<u>16,642</u>	<u>67,078</u>	<u>62,822</u>
Long-term liabilities outstanding	7,244	6,467	4,363	4,837	11,607	11,304
Other liabilities	8,059	2,637	375	485	8,434	3,122
Total liabilities	<u>15,303</u>	<u>9,104</u>	<u>4,738</u>	<u>5,322</u>	<u>20,041</u>	<u>14,426</u>
Net assets:						
Invested in capital assets, net	33,073	33,106	7,999	7,789	41,072	40,895
Restricted	3,021	2,773	-	-	3,021	2,773
Unrestricted	(412)	1,197	3,356	3,531	2,944	4,728
Total net assets	<u>\$ 35,682</u>	<u>\$ 37,076</u>	<u>\$ 11,355</u>	<u>\$ 11,320</u>	<u>\$ 47,037</u>	<u>\$ 48,396</u>

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,576	\$ 2,548	\$ 1,998	\$ 1,939	\$ 4,574	\$ 4,487
Operating grants and contributions	6,944	8,573	-	-	6,944	8,573
Capital grants and contributions	2,675	3,042	-	-	2,675	3,042
General revenues:						
Property taxes	15,578	15,287	-	-	15,578	15,287
Excises	917	915	-	-	917	915
Penalties and interest on taxes	94	96	-	-	94	96
Grants and contributions not restricted to specific programs	970	955	-	-	970	955
Investment income	115	58	3	3	118	61
Other	470	363	-	-	470	363
Total revenues	<u>30,339</u>	<u>31,837</u>	<u>2,001</u>	<u>1,942</u>	<u>32,340</u>	<u>33,779</u>
Expenses:						
General government	1,657	1,707	-	-	1,657	1,707
Public safety	3,184	3,088	-	-	3,184	3,088
Education	17,816	18,108	-	-	17,816	18,108
Public works	2,900	2,123	-	-	2,900	2,123
Human services	224	207	-	-	224	207
Culture and recreation	957	686	-	-	957	686
Employee benefits	4,621	4,472	-	-	4,621	4,472
Intergovernmental	359	365	-	-	359	365
Interest on long-term debt	131	194	-	-	131	194
Water	-	-	878	919	878	919
Sewer	-	-	975	1,029	975	1,029
Total expenses	<u>31,849</u>	<u>30,950</u>	<u>1,853</u>	<u>1,948</u>	<u>33,702</u>	<u>32,898</u>
Change in net assets before transfers	(1,510)	887	148	(6)	(1,362)	881
Transfers in (out)	113	116	(113)	(116)	-	-
Permanent fund contributions	<u>3</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>4</u>
Change in net assets	(1,394)	1,007	35	(122)	(1,359)	885
Net assets - beginning of year	<u>37,076</u>	<u>36,069</u>	<u>11,320</u>	<u>11,442</u>	<u>48,396</u>	<u>47,511</u>
Net assets - end of year	<u>\$ 35,682</u>	<u>\$ 37,076</u>	<u>\$ 11,355</u>	<u>\$ 11,320</u>	<u>\$ 47,037</u>	<u>\$ 48,396</u>

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 \$ 47,036,464, a change of \$ (1,358,642) from the prior year.

The largest portion of net assets \$ 41,071,498 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 \$ 3,021,218 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 2,943,748 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 \$ (1,393,588). Key elements of this change are as follows (in thousands):

General fund expenditures in excess of revenues	\$ (151)
Library construction major fund expenditures	
in excess of revenues	(1,484)
Nonmajor funds expenditures in excess of revenues	(622)
Excess depreciation over principal maturities	(1,206)
OPEB liability change	(1,191)
Fixed assets purchased with current year revenues	3,320
Other	<u>(60)</u>
Total	\$ <u><u>(1,394)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 34,946. Key elements of this change are as follows (in thousands):

Water operations	\$ 198
Sewer operations	<u>(163)</u>
Total	\$ <u><u>35</u></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, 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 end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 2,998,785, a change of \$ (2,143,515) in comparison to the prior year. Most of this change was attributable to the following (in thousands):

General fund revenues and other financing sources over expenditures and transfers out	\$ 159
Library construction major fund expenditures in excess of revenues	(1,484)
Nonmajor funds revenues and transfers in over expenditures and transfers out	<u>(818)</u>
Total	<u>\$ (2,143)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 897,139 while total fund balance was \$ 2,985,755. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 897,139	\$ 758,554	\$ 138,585	3.5%
Total fund balance	2,985,755	2,826,948	158,807	11.6%

The total fund balance of the general fund changed by \$ 158,807 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash and overlay surplus as a funding source	\$ (1,121)
Revenues in excess of budget	574
Expenditures less than budget	336
Expenditures of prior year encumbrances	(347)
Change in stabilization	207
Other	<u>510</u>
Total	<u>\$ 159</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 1,017,693	\$ 911,009	\$ 106,684
Unfunded health stabilization	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total	<u>\$ 1,117,693</u>	<u>\$ 911,009</u>	<u>\$ 206,684</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 \$ 3,355,774, a change of \$ (175,195) in comparison to 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 \$ 611,707. Major reasons for these amendments include (in thousands):

- \$ 77 Purchase of various vehicles funded by overlay and transfers
- \$ 200 Transfers to stabilization funds funded by free cash
- \$ 327 Net increases in various department expenses funded by free cash and taxes

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 49,904,998 (net of accumulated depreciation), a change of \$ 1,381,259 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):

- \$ 350 Purchase of school computers, equipment, and vehicles
- \$ 1,979 Library construction
- \$ 300 Purchase of conservation land
- \$ 180 Building improvements
- \$ 286 Infrastructure improvements

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 6,090,000, 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 Notes 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, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 10,469,850	\$ 2,114,989	\$ 12,584,839
Investments	124,717	-	124,717
Receivables, net of allowance for uncollectibles:			
Property taxes	528,967	-	528,967
Excises	92,895	-	92,895
User fees	-	640,472	640,472
Departmental and other	149,459	-	149,459
Intergovernmental	1,852,603	-	1,852,603
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	276,092	-	276,092
Betterments	17,336	906,141	923,477
Capital assets:			
Land and construction in progress	5,744,457	1,375,503	7,119,960
Other capital assets, net of accumulated depreciation	<u>31,729,048</u>	<u>11,055,990</u>	<u>42,785,038</u>
TOTAL ASSETS	50,985,424	16,093,095	67,078,519
LIABILITIES			
Current:			
Warrants payable	653,556	53,061	706,617
Accrued liabilities	523,813	55,867	579,680
Notes payable	6,717,505	266,692	6,984,197
Tax refunds payable	88,000	-	88,000
Other current liabilities	76,194	-	76,194
Current portion of long-term liabilities:			
Bonds payable	350,000	490,000	840,000
Compensated absences	25,328	1,486	26,814
Landfill	15,197	-	15,197
Capital Leases	66,832	-	66,832
Noncurrent:			
Bonds payable, net of current portion	1,485,000	3,765,000	5,250,000
Compensated absences, net of current portion	481,237	28,221	509,458
Landfill, net of current portion	291,135	-	291,135
Capital Leases, net of current portion	132,875	-	132,875
Net OPEB obligation	<u>4,396,723</u>	<u>78,333</u>	<u>4,475,056</u>
TOTAL LIABILITIES	15,303,395	4,738,660	20,042,055
NET ASSETS			
Invested in capital assets, net of related debt	33,072,837	7,998,661	41,071,498
Restricted for:			
Grants and other statutory restrictions	2,838,031	-	2,838,031
Permanent funds:			
Nonexpendable	171,151	-	171,151
Expendable	12,036	-	12,036
Unrestricted	<u>(412,026)</u>	<u>3,355,774</u>	<u>2,943,748</u>
TOTAL NET ASSETS	\$ <u>35,682,029</u>	\$ <u>11,354,435</u>	\$ <u>47,036,464</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 1,656,902	\$ 176,250	\$ 24,827	\$ -	\$ (1,455,825)	\$ -	\$ (1,455,825)
Public safety	3,184,019	512,624	70,109	-	(2,601,286)	-	(2,601,286)
Education	17,815,798	1,156,865	6,612,933	-	(10,046,000)	-	(10,046,000)
Public works	2,899,742	490,100	170,054	693,610	(1,545,978)	-	(1,545,978)
Health and human services	223,938	55,646	50,040	-	(118,252)	-	(118,252)
Culture and recreation	957,329	184,747	16,115	1,980,917	1,224,450	-	1,224,450
Employee benefits	4,620,654	-	-	-	(4,620,654)	-	(4,620,654)
Intergovernmental	359,014	-	-	-	(359,014)	-	(359,014)
Interest	131,364	-	-	-	(131,364)	-	(131,364)
Total Governmental Activities	31,848,760	2,576,232	6,944,078	2,674,527	(19,653,923)	-	(19,653,923)
Business-Type Activities:							
Water services	878,098	1,094,241	-	-	-	216,143	216,143
Sewer services	974,511	904,030	-	-	-	(70,481)	(70,481)
Total Business-Type Activities	1,852,609	1,998,271	-	-	-	145,662	145,662
Total	\$ 33,701,369	\$ 4,574,503	\$ 6,944,078	\$ 2,674,527	(19,653,923)	145,662	(19,508,261)
General Revenues, Transfers, and Contributions:							
Property taxes					15,577,932	-	15,577,932
Excises					917,210	-	917,210
Penalties, interest and other taxes					93,621	-	93,621
Grants and contributions not restricted to specific programs					969,993	-	969,993
Investment income					115,279	2,710	117,989
Miscellaneous					498,113	-	498,113
Loss on disposal of capital assets					(28,284)	-	(28,284)
Transfers, net					113,426	(113,426)	-
Permanent fund contributions					3,045	-	3,045
Total general revenues, transfers, and contributions					18,260,335	(110,716)	18,149,619
Change in Net Assets					(1,393,588)	34,946	(1,358,642)
Net Assets:							
Beginning of year					37,075,617	11,319,489	48,395,106
End of year					\$ 35,682,029	\$ 11,354,435	\$ 47,036,464

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Library Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 3,591,428	\$ 3,730,084	\$ 3,148,338	\$ 10,469,850
Investments	124,717	-	-	124,717
Receivables:				
Property taxes	947,440	-	2,192	949,632
Excises	187,544	-	-	187,544
Departmental and other	-	-	149,459	149,459
Intergovernmental	-	1,115,827	736,776	1,852,603
Betterments	-	-	17,336	17,336
	<u>-</u>	<u>-</u>	<u>17,336</u>	<u>17,336</u>
TOTAL ASSETS	\$ <u>4,851,129</u>	\$ <u>4,845,911</u>	\$ <u>4,054,101</u>	\$ <u>13,751,141</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 249,909	\$ 298,704	\$ 104,943	\$ 653,556
Accrued liabilities	500,599	-	-	500,599
Notes payable	-	5,000,000	1,390,930	6,390,930
Deferred revenues	1,026,512	1,115,827	900,738	3,043,077
Tax refunds payable	88,000	-	-	88,000
Other current liabilities	354	75,840	-	76,194
	<u>1,865,374</u>	<u>6,490,371</u>	<u>2,396,611</u>	<u>10,752,356</u>
TOTAL LIABILITIES	1,865,374	6,490,371	2,396,611	10,752,356
Fund Balances:				
Nonspendable	-	-	171,151	171,151
Restricted	7,428	-	2,981,533	2,988,961
Committed	1,405,704	-	-	1,405,704
Assigned	675,484	-	-	675,484
Unassigned	897,139	(1,644,460)	(1,495,194)	(2,242,515)
	<u>2,985,755</u>	<u>(1,644,460)</u>	<u>1,657,490</u>	<u>2,998,785</u>
TOTAL FUND BALANCES	2,985,755	(1,644,460)	1,657,490	2,998,785
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>4,851,129</u>	\$ <u>4,845,911</u>	\$ <u>4,054,101</u>	\$ <u>13,751,141</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, 2012

Total governmental fund balances	\$ 2,998,785
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	37,473,505
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,803,855
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(23,214)
• 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.	<u>(7,570,902)</u>
Net assets of governmental activities	<u><u>\$ 35,682,029</u></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, 2012

	<u>General</u>	<u>Library Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 15,423,660	\$ -	\$ 105,903	\$ 15,529,563
Excises	877,756	-	-	877,756
Penalties, interest and other taxes	93,289	-	333	93,622
Charges for services	248,557	-	2,063,631	2,312,188
Intergovernmental	8,149,715	836,871	1,537,971	10,524,557
Licenses and permits	220,900	-	-	220,900
Fines and forfeitures	19,807	-	-	19,807
Investment income	107,513	-	7,766	115,279
Contributions	-	-	405,079	405,079
Miscellaneous	362,470	-	95,500	457,970
Total Revenues	<u>25,503,667</u>	<u>836,871</u>	<u>4,216,183</u>	<u>30,556,721</u>
Expenditures:				
Current:				
General government	1,858,613	-	186,456	2,045,069
Public safety	2,732,994	-	307,364	3,040,358
Education	15,202,266	-	2,427,768	17,630,034
Public works	956,729	-	1,625,550	2,582,279
Health and human services	183,798	-	34,616	218,414
Culture and recreation	340,242	2,320,884	256,138	2,917,264
Employee benefits	3,429,785	-	-	3,429,785
Debt service	591,445	-	-	591,445
Intergovernmental	359,014	-	-	359,014
Total Expenditures	<u>25,654,886</u>	<u>2,320,884</u>	<u>4,837,892</u>	<u>32,813,662</u>
Excess (deficiency) of revenues over expenditures	(151,219)	(1,484,013)	(621,709)	(2,256,941)
Other Financing Sources (Uses):				
Transfers in	413,078	-	-	413,078
Transfers out	(103,052)	-	(196,600)	(299,652)
Total Other Financing Sources (Uses)	<u>310,026</u>	<u>-</u>	<u>(196,600)</u>	<u>113,426</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	158,807	(1,484,013)	(818,309)	(2,143,515)
Fund Equity, at Beginning of Year	<u>2,826,948</u>	<u>(160,447)</u>	<u>2,475,799</u>	<u>5,142,300</u>
Fund Equity, at End of Year	<u>\$ 2,985,755</u>	<u>\$ (1,644,460)</u>	<u>\$ 1,657,490</u>	<u>\$ 2,998,785</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, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (2,143,515)**

- 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:

Capital outlay purchases	3,348,641
Depreciation	(1,646,100)
Gain (Loss) on disposition of assets	(28,284)

- 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. (226,832)

- 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:

Repayments of bonds and notes	767,150
Note issuances	(326,575)

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 4,768

- 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.

Change in other post-employment benefits liability	(1,190,869)
Change in compensated absence liability	(30,018)
Change in landfill liability	14,755
Change in capital leases	<u>63,291</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (1,393,588)**

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues and Other Sources:				
Property taxes	\$ 15,398,865	\$ 15,320,717	\$ 15,320,717	\$ -
Excise taxes	827,000	827,000	877,756	50,756
Interest, penalties and other taxes	122,995	122,995	177,731	54,736
Licenses and permits	132,000	132,000	220,900	88,900
Fines and forfeitures	23,439	23,439	19,807	(3,632)
Charges for services	256,741	256,741	248,557	(8,184)
Intergovernmental	5,089,885	5,089,885	5,176,562	86,677
Interest earnings	40,000	40,000	100,829	60,829
Miscellaneous	118,938	118,938	362,472	243,534
Transfers in	391,047	413,078	413,078	-
Total Revenues and Other Sources	22,400,910	22,344,793	22,918,409	573,616
Expenditures and Other Uses:				
General government	1,880,890	1,940,209	1,797,314	142,895
Public safety	2,658,797	2,798,129	2,742,412	55,717
Education	12,326,505	12,424,583	12,420,644	3,939
Public works	933,253	1,039,742	1,027,121	12,621
Health and human services	177,940	191,001	183,798	7,203
Culture and recreation	342,577	356,948	340,642	16,306
Employee benefits	3,501,260	3,489,691	3,407,345	82,346
Intergovernmental	364,732	364,732	359,014	5,718
Debt service	659,971	640,917	638,933	1,984
Transfers out	8,650	212,997	212,997	-
Other uses	-	7,333	-	7,333
Total Expenditures and Other Uses	22,854,575	23,466,282	23,130,220	336,062
Excess (deficiency) of revenues over expenditures	(453,665)	(1,121,489)	(211,811)	909,678
Other Financing Sources				
Use of free cash				
Non-recurring capital costs	363,968	573,353	-	(573,353)
Non-recurring transfer to stabilization fund	-	200,000	-	(200,000)
Recurring costs	58,100	58,100	-	(58,100)
Use of MTBE Settlement				
Recurring costs	2,379	2,379	-	(2,379)
Use of bond premium	29,218	29,218	-	(29,218)
Use of debt service reserved	-	198,090	-	(198,090)
Overlay surplus	-	60,349	-	(60,349)
Total Other Sources	453,665	1,121,489	-	(1,121,489)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (211,811)	\$ (211,811)

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 587,623	\$ 1,527,366	\$ 2,114,989
User fees, net of allowance for uncollectibles	331,374	309,098	640,472
Betterment fees, net of allowance for uncollectibles	-	906,141	906,141
Total current assets	918,997	2,742,605	3,661,602
Noncurrent:			
Capital assets:			
Land and construction in progress	1,375,503	-	1,375,503
Other capital assets, net of accumulated depreciation	5,041,335	6,014,655	11,055,990
Total noncurrent assets	6,416,838	6,014,655	12,431,493
TOTAL ASSETS	7,335,835	8,757,260	16,093,095
<u>LIABILITIES</u>			
Current:			
Warrants payable	12,252	40,809	53,061
Accrued liabilities	29,427	26,440	55,867
Notes payable	81,000	185,692	266,692
Current portion of long-term liabilities:			
Bonds payable	255,000	235,000	490,000
Compensated absence	879	607	1,486
Total current liabilities	378,558	488,548	867,106
Noncurrent:			
Bonds payable, net of current portion	1,705,000	2,060,000	3,765,000
Compensated absence, net of current portion	16,694	11,527	28,221
Net OPEB obligation	43,358	34,975	78,333
Total noncurrent liabilities	1,765,052	2,106,502	3,871,554
TOTAL LIABILITIES	2,143,610	2,595,050	4,738,660
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,415,605	3,583,056	7,998,661
Unrestricted	776,620	2,579,154	3,355,774
TOTAL NET ASSETS	\$ 5,192,225	\$ 6,162,210	\$ 11,354,435

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, 2012

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues:			
Charges for services	\$ 1,086,315	\$ 897,212	\$ 1,983,527
Other	<u>7,926</u>	<u>6,818</u>	<u>14,744</u>
Total Operating Revenues	1,094,241	904,030	1,998,271
Operating Expenses:			
Operating expenses	597,869	732,227	1,330,096
Depreciation	<u>203,677</u>	<u>159,188</u>	<u>362,865</u>
Total Operating Expenses	<u>801,546</u>	<u>891,415</u>	<u>1,692,961</u>
Operating Income	292,695	12,615	305,310
Nonoperating Revenues (Expenses):			
Interest income	1,789	921	2,710
Interest expense	<u>(76,552)</u>	<u>(83,096)</u>	<u>(159,648)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(74,763)</u>	<u>(82,175)</u>	<u>(156,938)</u>
Income (Loss) Before Transfers	217,932	(69,560)	148,372
Transfers:			
Transfers in	97,095	5,956	103,051
Transfers out	<u>(116,649)</u>	<u>(99,828)</u>	<u>(216,477)</u>
Change in Net Assets	198,378	(163,432)	34,946
Net Assets at Beginning of Year	<u>4,993,847</u>	<u>6,325,642</u>	<u>11,319,489</u>
Net Assets at End of Year	<u>\$ 5,192,225</u>	<u>\$ 6,162,210</u>	<u>\$ 11,354,435</u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,066,151	\$ 1,001,842	\$ 2,067,993
Payments to vendors and employees	<u>(612,128)</u>	<u>(680,596)</u>	<u>(1,292,724)</u>
Net Cash Provided By Operating Activities	454,023	321,246	775,269
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfer in	97,095	5,956	103,051
Transfers out	<u>(116,649)</u>	<u>(99,828)</u>	<u>(216,477)</u>
Net Cash (Used for) Noncapital Financing Activities	(19,554)	(93,872)	(113,426)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(50,082)	(19,785)	(69,867)
Principal payments on bonds and notes	(365,000)	(515,616)	(880,616)
Proceeds from notes	81,000	185,692	266,692
Interest expense	<u>(80,519)</u>	<u>(85,999)</u>	<u>(166,518)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(414,601)</u>	<u>(435,708)</u>	<u>(850,309)</u>
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>1,790</u>	<u>921</u>	<u>2,711</u>
Net Cash Provided By Investing Activities	<u>1,790</u>	<u>921</u>	<u>2,711</u>
Net Change in Cash and Short-Term Investments	21,658	(207,413)	(185,755)
Cash and Short-Term Investments, Beginning of Year	<u>565,965</u>	<u>1,734,779</u>	<u>2,300,744</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 587,623</u></u>	<u><u>\$ 1,527,366</u></u>	<u><u>\$ 2,114,989</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ 292,695	\$ 12,615	\$ 305,310
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	203,677	159,188	362,865
Changes in assets and liabilities:			
User fees	(28,089)	97,812	69,723
Warrants and accounts payable	(34,854)	35,328	474
Compensated absence, net of current portion	2,600	1,328	3,928
Other post employment benefits	<u>17,994</u>	<u>14,975</u>	<u>32,969</u>
Net Cash Provided By Operating Activities	<u><u>\$ 454,023</u></u>	<u><u>\$ 321,246</u></u>	<u><u>\$ 775,269</u></u>

See notes to financial statements.

TOWN OF MILLIS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>152,781</u>	\$ <u>56,264</u>
Total Assets	152,781	56,264
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>-</u>	<u>56,264</u>
Total Liabilities	<u>-</u>	<u>56,264</u>
<u>NET ASSETS</u>		
Total net assets held in trust	\$ <u><u>152,781</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, 2012

	Private Purpose <u>Trust Funds</u>
Additions:	
Investment Income (Loss)	\$ 2,157
Contributions	<u>30,277</u>
Total additions	32,434
Deductions:	
Education	<u>500</u>
Total deductions	<u>500</u>
Net increase (decrease)	31,934
Net assets:	
Beginning of year	<u>120,847</u>
End of year	\$ <u><u>152,781</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 2012, 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 *Library Construction fund* accounts for constructing the new library facility.

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 2½" 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 2012 tax levy reflected an excess capacity of \$ 193,375.

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 are 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

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e. perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned and Unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

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 appropria-

tions 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 to 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)	\$ 25,503,667	\$ 25,654,886
Other financing sources/uses (GAAP Basis)	<u>413,078</u>	<u>103,052</u>
Subtotal (GAAP Basis)	25,916,745	25,757,938
Adjust tax revenue to accrual basis	(102,943)	-
To reverse expenditures of prior year appropriation carryforwards		(346,519)
To book current year appropriation carryforwards	-	478,539
To reverse the effect of non- budgeted State contributions for teachers retirement	(2,888,711)	(2,888,711)
To reverse nonbudgeted activity	<u>(6,682)</u>	<u>128,973</u>
Budgetary Basis	<u>\$ 22,918,409</u>	<u>\$ 23,130,220</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Special Revenue Funds:

Off-Duty Detail	\$ (24,105)
Gas Account	(15,621)
e-911 Training	(4,751)
Law Enforcement Trust	(88)
Police Bulletproof Vest Grant	(2,965)
Fluoridation Grant	(691)
Chapter 90	(371,857)

Capital Project Funds:

Library Construction	(1,644,460)
Transfer Station Equipment	(58,952)
Flood Damage	(353,132)
Crestview/Klifford	(308,388)
Flood Control Structure	(46,170)
Flood Proof Dover Pump Station	(8,474)
CPF- Dewey Land	<u>(300,000)</u>
	<u>\$ (3,139,654)</u>

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, 2012, none of the Town's bank balance of \$ 13,082,603 was exposed to custodial credit risk as uninsured or uncollateralized.

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Certificates of deposits	\$ <u>125</u>	N/A	\$ <u>125</u>
Total investments	\$ <u><u>125</u></u>		\$ <u><u>125</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 (in thousands):

<u>Investment Issuer</u>	<u>Amount</u>
Middlesex Savings Bank	\$ 99
St. Mary's Credit Union	<u>26</u>
Total	<u>\$ 125</u>

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>125</u>	\$ <u>99</u>	\$ <u>26</u>
Total	<u>\$ 125</u>	<u>\$ 99</u>	<u>\$ 26</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 1st 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, 2012 consist of the following (in thousands):

Real Estate			
2012	\$	357	
2011		149	
2010		<u>11</u>	
			517
Personal Property			
2012		9	
2011		7	
2010		8	
2009 & prior		<u>22</u>	
			46
Tax Liens and foreclosures			385
Other			<u>2</u>
Total			<u>\$ 950</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	\$ 145	\$ -
Excises	\$ 95	\$ -
Betterments	\$ -	\$ 101
Utilities	\$ -	\$ 38

7. Intergovernmental Receivables

This balance various reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

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, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 18,497	\$ 180	\$ (20)	\$ 18,657
Machinery, equipment, and furnishings	5,749	604	(153)	6,200
Infrastructure	<u>24,913</u>	<u>286</u>	<u>-</u>	<u>25,199</u>
Total capital assets, being depreciated	49,159	1,070	(173)	50,056
Less accumulated depreciation for:				
Buildings and improvements	(7,243)	(525)	4	(7,764)
Machinery, equipment, and furnishings	(3,511)	(457)	141	(3,827)
Infrastructure	<u>(6,072)</u>	<u>(664)</u>	<u>-</u>	<u>(6,736)</u>
Total accumulated depreciation	<u>(16,826)</u>	<u>(1,646)</u>	<u>145</u>	<u>(18,327)</u>
Total capital assets, being depreciated, net	32,333	(576)	(28)	31,729
Capital assets, not being depreciated:				
Land	3,102	300	-	3,402
Construction in progress	<u>364</u>	<u>1,979</u>	<u>-</u>	<u>2,343</u>
Total capital assets, not being depreciated	<u>3,466</u>	<u>2,279</u>	<u>-</u>	<u>5,745</u>
Governmental activities capital assets, net	<u>\$ 35,799</u>	<u>\$ 1,703</u>	<u>\$ (28)</u>	<u>\$ 37,474</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,454	\$ 20	\$ -	\$ 2,474
Machinery, equipment, and furnishings	1,550	-	-	1,550
Infrastructure	<u>10,719</u>	<u>1,823</u>	<u>-</u>	<u>12,542</u>
Total capital assets, being depreciated	14,723	1,843	-	16,566
Less accumulated depreciation for:				
Buildings and improvements	(1,392)	(53)	-	(1,445)
Machinery, equipment, and furnishings	(1,068)	(40)	-	(1,108)
Infrastructure	<u>(2,688)</u>	<u>(270)</u>	<u>-</u>	<u>(2,958)</u>
Total accumulated depreciation	<u>(5,148)</u>	<u>(363)</u>	<u>-</u>	<u>(5,511)</u>
Total capital assets, being depreciated, net	9,575	1,480	-	11,055
Capital assets, not being depreciated:				
Land	1,376	-	-	1,376
Construction in progress	<u>1,773</u>	<u>-</u>	<u>(1,773)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,149</u>	<u>-</u>	<u>(1,773)</u>	<u>1,376</u>
Business-type activities capital assets, net	<u>\$ 12,724</u>	<u>\$ 1,480</u>	<u>\$ (1,773)</u>	<u>\$ 12,431</u>

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

Governmental Activities:	
General government	\$ 146
Public safety	163
Education	559
Public works	767
Health and human services	2
Culture and recreation	<u>9</u>
Total depreciation expense - governmental activities	<u>\$ 1,646</u>
Business-Type Activities:	
Water	\$ 204
Sewer	<u>159</u>
Total depreciation expense - business-type activities	<u>\$ 363</u>

10. Warrants Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012 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, 2012 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, 2012:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/12</u>
Modular classrooms	1.15%	07/01/11	07/01/12	\$ 96,000 (1)
Ambulance	1.15%	07/15/11	07/13/12	105,000 (1)
Title V Septic	2.00%	08/26/11	08/24/12	9,575 (1)
Landfill	0.75%	05/04/12	05/03/13	20,000 (1)
Causeway St. Culvert	1.00%	12/14/11	12/14/12	96,000 (1)
Transfer Station	2.00%	02/23/12	02/22/13	58,952
Library	2.00%	02/23/12	02/22/13	5,000,000
Culvert & Drainage -				
Flood Damage	2.00%	02/23/12	02/22/13	460,000
Flood Control	0.85%	02/23/12	02/22/13	121,000
Flood Proofing	0.85%	02/23/12	02/22/13	65,000
Crestview/Klifford	1.15%	07/06/11	07/06/12	385,978
Dewery Land Purchase	1.15%	07/19/11	07/19/12	300,000
SCADA	1.00%	01/27/12	01/25/13	36,606
Water Mains	0.85%	02/23/12	02/22/13	81,000
Sewer Capacity	2.00%	02/23/12	02/22/13	149,086
Total				<u>\$ 6,984,197</u>

(1) Considered long-term and reported at the Government-wide level

The following summarizes activity in notes payable during fiscal year 2012:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Governmental:				
Modular classrooms	\$ 115,000	\$ 96,000	\$ (115,000)	\$ 96,000
Ambulance	120,000	105,000	(120,000)	105,000
Title V Septic	18,150	9,575	(18,150)	9,575
Landfill	40,000	20,000	(40,000)	20,000
Causeway St. Culvert	108,000	96,000	(108,000)	96,000
Transfer Station	73,690	58,952	(73,690)	58,952
Library	800,000	5,000,000	(800,000)	5,000,000
Culvert & Drainage -				
Flood Damage	460,000	460,000	(460,000)	460,000
Flood Control	-	121,000	-	121,000
Flood Proofing	-	65,000	-	65,000
Crestview/Klifford	-	385,978	-	385,978
Dewery Land Purchase	-	300,000	-	300,000
Subtotal	1,734,840	6,717,505	(1,734,840)	6,717,505
Enterprise:				
SCADA	55,106	36,606	(55,106)	36,606
Water Mains	90,000	81,000	(90,000)	81,000
Sewer Infiltration	75,424	-	(75,424)	-
Sewer Capacity	149,086	149,086	(149,086)	149,086
Subtotal	369,616	266,692	(369,616)	266,692
Total	\$ 2,104,456	\$ 6,984,197	\$ (2,104,456)	\$ 6,984,197

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 Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
<u>Governmental Activities:</u>			
Community Center and Town Hall	07/01/15	2.80%	\$ 460,000
Ambulance bay	07/01/15	2.80%	35,000
Landfill capping	07/01/17	2.80%	270,000
Land acquisition	10/15/18	2.80%	325,000
DPW garage	08/15/18	3.97%	140,000
Roads	08/15/13	3.69%	15,000
Public way	10/01/15	3.99%	220,000
Surface drain	10/01/25	3.91%	<u>370,000</u>
Total Governmental Activities:			\$ <u>1,835,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/12
<u>Business-Type Activities:</u>			
Well field development	10/15/20	2.80%	\$ 680,000
Water	08/15/13	3.72%	40,000
Water	08/15/13	3.72%	21,000
Water	08/15/23	4.28%	162,000
Water	08/15/23	4.27%	972,000
Water meters	08/15/12	3.65%	30,000
Water mains - Pleasant St.	10/01/16	3.93%	55,000
Sewer improvements	07/01/17	2.80%	340,000
Sewer improvements	10/15/20	2.80%	660,000
Sewer improvements	10/01/26	3.91%	<u>1,295,000</u>
Total Business-Type Activities:			\$ <u>4,255,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 350,000	\$ 51,128	\$ 401,128
2014	330,000	42,248	372,248
2015	320,000	33,768	353,768
2016	315,000	23,908	338,908
2017	140,000	16,353	156,353
2018 - 2022	280,000	37,347	317,347
2023 - 2027	<u>100,000</u>	<u>8,000</u>	<u>108,000</u>
Total	\$ <u>1,835,000</u>	\$ <u>212,752</u>	\$ <u>2,047,752</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, 2012.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 490,000	\$ 145,565	\$ 635,565
2014	455,000	131,517	586,517
2015	410,000	118,866	528,866
2016	410,000	105,207	515,207
2017	405,000	91,479	496,479
2018 - 2022	1,470,000	265,120	1,735,120
2023 - 2027	<u>615,000</u>	<u>51,703</u>	<u>666,703</u>
Total	\$ <u>4,255,000</u>	\$ <u>909,457</u>	\$ <u>5,164,457</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 2,201	\$ -	\$ (366)	\$ 1,835	\$ (350)	\$ 1,485
Other:						
Accrued employee benefits	476	37	(7)	506	(25)	481
Landfill closure	321	-	(15)	306	(15)	291
Capital leases	263	-	(63)	200	(67)	133
Net OPEB obligation	<u>3,206</u>	<u>2,127</u>	<u>(936)</u>	<u>4,397</u>	<u>-</u>	<u>4,397</u>
Totals	\$ <u>6,467</u>	\$ <u>2,164</u>	\$ <u>(1,387)</u>	\$ <u>7,244</u>	\$ <u>(457)</u>	\$ <u>6,787</u>

	Total Balance 7/1/11	Additions	Reductions	Total Balance 6/30/12	Less Current Portion	Equals Long-Term Portion 6/30/12
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,766	\$ -	\$ (511)	\$ 4,255	\$ (490)	\$ 3,765
Other:						
Accrued employee benefits	26	4	-	30	(1)	29
Net OPEB obligation	45	36	(3)	78	-	78
Totals	<u>\$ 4,837</u>	<u>\$ 40</u>	<u>\$ (514)</u>	<u>\$ 4,363</u>	<u>\$ (491)</u>	<u>\$ 3,872</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 \$ 306,332 as landfill closure and postclosure care liability at June 30, 2012. This amount is based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2012. 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. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

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. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, stabilization funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and certain special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	General Fund	Library Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 171,151	\$ 171,151
Total Nonspendable	-	-	171,151	171,151
Restricted				
Reserved for debt premiums	7,428	-	-	7,428
Bonded projects	-	-	101,433	101,433
Special revenue funds	-	-	2,838,031	2,838,031
Expendable permanent funds	-	-	42,069	42,069
Total Restricted	7,428	-	2,981,533	2,988,961

(continued)

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	<u>General Fund</u>	<u>Library Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Committed				
Reserved for articles	288,011	-	-	288,011
Stabilization funds	<u>1,117,693</u>	<u>-</u>	<u>-</u>	<u>1,117,693</u>
Total Committed	1,405,704	-	-	1,405,704
Assigned				
Encumbrances	319,160	-	-	319,160
For next year's expenditures	<u>356,324</u>	<u>-</u>	<u>-</u>	<u>356,324</u>
Total Assigned	675,484	-	-	675,484
Unassigned	<u>897,139</u>	<u>(1,644,460)</u>	<u>(1,495,194)</u>	<u>(2,242,515)</u>
Total Unassigned	<u>897,139</u>	<u>(1,644,460)</u>	<u>(1,495,194)</u>	<u>(2,242,515)</u>
Total Fund Balance	<u>\$ 2,985,755</u>	<u>\$ (1,644,460)</u>	<u>\$ 1,657,490</u>	<u>\$ 2,998,785</u>

17. Subsequent Events

Subsequent to June 30, 2012, the Town has paid off and incurred the following debt:

	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u>
Modular Classrooms	\$ (96,000)	1.15%	07/02/11	07/02/12
Modular Classrooms	\$ 66,000	0.75%	07/02/12	07/02/13
Ambulance	\$ (105,000)	1.15%	07/15/11	07/13/12
Ambulance	\$ 90,000	0.75%	07/13/12	07/13/13
Crestview/Klifford	\$ (385,978)	1.15%	07/06/11	07/06/12
Crestview/Klifford	\$ 359,978	0.65%	07/06/12	02/22/13
Dewey Land	\$ (300,000)	1.15%	07/19/11	07/19/12
Dewey Land	\$ 240,000	0.75%	07/19/12	07/19/13
Forest Road	\$ 682,000	0.55%	11/09/12	02/22/13
Water Production	\$ 38,500	1.00%	10/25/12	10/25/13

18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues 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 govern-

ment. 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.

19. Post-Employment Healthcare 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 Activities 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 healthcare 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, 2010, the actuarial valuation date, approximately 100 retirees and 281 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 2012 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, 2012, 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, 2010.

Annual Required Contribution (ARC)	\$ 1,863,644
Interest on net OPEB obligation	130,049
Amortization on net OPEB obligation	169,334
Adjustment to ARC	<u>(179,545)</u>
Annual OPEB cost	1,983,482
Contributions made	<u>(759,644)</u>
Increase in net OPEB obligation	1,223,838
Net OPEB obligation - beginning of year	<u>3,251,218</u>
Net OPEB obligation - end of year	<u><u>\$ 4,475,056</u></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>
2012	\$ 1,983,482	38.3%	\$ 4,475,056
2011	\$ 1,892,009	37.9%	\$ 3,251,218
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, 2012 is recorded as a non-current liability.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 19,593,487
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 19,593,487</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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 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, 2010 actuarial valuation the projected unit credit actuarial 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 4.0 % investment rate of return and an initial annual healthcare cost trend rate of 7.0 % which then decreases to a 5% long-term rate for all healthcare benefits after three 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 3.5 %.

20. 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, 2012, 2011, and 2010 were \$ 1,009,685, \$ 938,284, and \$ 904,432, 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 \$ 9,239,824.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 2,888,711 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. 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 2012 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	\$ 398
August	504
September	433
October	429
November	484
December	447
January	584
February	485
March	398
April	518
May	729
June	<u>506</u>
Total	\$ <u>5,915</u>

22. 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.

23. Implementation of New GASB Standards

- The GASB has issued Statement No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by eliminating the deferred charges. The Town anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- The GASB has issued Statement No. 68 Accounting and Financial Reporting for Pensions, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town of Millis' actuarially accrued liability with the Norfolk County Retirement System.

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

**June 30, 2012
(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%
07/01/10	\$ -	\$ 19,593,487	\$ 19,593,487	0.0%	N/A	N/A

See Independent Auditors' Report.