

TOWN OF MILLIS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Millis, Massachusetts

Additional Offices:

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

Report on the Financial Statements

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, 2014, and the related notes to financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millis, Massachusetts, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Melanson Heath

April 13, 2014

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, 2014.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation 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 \$44,157,829 (i.e., net position), a change of \$(1,437,798) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$5,044,745, a change of \$(950,547) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,878,543, a change of \$106,664 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$10,505,000, a change of \$(1,139,738) 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 11,071	\$ 8,965	\$ 3,287	\$ 3,559	\$ 14,358	\$ 12,524
Capital assets	40,018	40,412	13,035	12,887	53,053	53,299
Total assets	<u>51,089</u>	<u>49,377</u>	<u>16,322</u>	<u>16,446</u>	<u>67,411</u>	<u>65,823</u>
Long-term liabilities outstanding	13,748	13,217	4,367	4,851	18,115	18,068
Other liabilities	4,683	1,987	455	172	5,138	2,159
Total liabilities	<u>18,431</u>	<u>15,204</u>	<u>4,822</u>	<u>5,023</u>	<u>23,253</u>	<u>20,227</u>
Net position:						
Net investment in capital assets	33,062	33,252	8,722	8,456	41,784	41,708
Restricted	2,971	2,820	-	-	2,971	2,820
Unrestricted	(3,375)	(1,899)	2,778	2,967	(597)	1,068
Total net position	<u>\$ 32,658</u>	<u>\$ 34,173</u>	<u>\$ 11,500</u>	<u>\$ 11,423</u>	<u>\$ 44,158</u>	<u>\$ 45,596</u>

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,470	\$ 2,687	\$ 2,195	\$ 1,975	\$ 4,665	\$ 4,662
Operating grants and contributions	9,187	8,814	-	-	9,187	8,814
Capital grants and contributions	714	29	-	-	714	29
General revenues:						
Property taxes	17,255	16,412	-	-	17,255	16,412
Excises	1,036	975	-	-	1,036	975
Penalties and interest on taxes	109	102	-	-	109	102
Grants and contributions not restricted to specific programs	998	950	-	-	998	950
Investment income	21	398	2	2	23	400
Other	746	363	-	-	746	363
Total revenues	<u>32,536</u>	<u>30,730</u>	<u>2,197</u>	<u>1,977</u>	<u>34,733</u>	<u>32,707</u>
Expenses:						
General government	2,203	2,095	-	-	2,203	2,095
Public safety	3,551	3,383	-	-	3,551	3,383
Education	19,402	18,668	-	-	19,402	18,668
Public works	2,722	2,140	-	-	2,722	2,140
Human services	275	260	-	-	275	260
Culture and recreation	728	679	-	-	728	679
Employee benefits	4,823	4,728	-	-	4,823	4,728
Intergovernmental	337	317	-	-	337	317
Interest on long-term debt	213	132	-	-	213	132
Water	-	-	955	851	955	851
Sewer	-	-	963	897	963	897
Total expenses	<u>34,254</u>	<u>32,402</u>	<u>1,918</u>	<u>1,748</u>	<u>36,172</u>	<u>34,150</u>
Change in net position before transfers	(1,718)	(1,672)	279	229	(1,439)	(1,443)
Transfers in (out)	202	161	(202)	(161)	-	-
Permanent fund contributions	1	2	-	-	1	2
Change in net position	(1,515)	(1,509)	77	68	(1,438)	(1,441)
Net position - beginning of year	<u>34,173</u>	<u>35,682</u>	<u>11,423</u>	<u>11,355</u>	<u>45,596</u>	<u>47,037</u>
Net position - end of year	<u>\$ 32,658</u>	<u>\$ 34,173</u>	<u>\$ 11,500</u>	<u>\$ 11,423</u>	<u>\$ 44,158</u>	<u>\$ 45,596</u>

As noted earlier, net position 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 position were \$44,157,829, a change of \$(1,437,798) from the prior year.

The largest portion of net position \$41,784,015 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 position, \$2,970,564, represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,515,638). Key elements of this change are as follows (in thousands):

General fund revenues and other financing sources over	
expenditures and transfers out	\$ (50)
Net OPEB obligation change	(1,169)
Other	<u>(297)</u>
Total	\$ <u><u>(1,516)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$77,840. Key elements of this change are as follows (in thousands):

Water operations	\$ 188
Sewer operations	<u>(110)</u>
Total	\$ <u><u>78</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 \$5,044,745, a change of \$(950,547) in comparison to the prior year. Most of this change was attributable to the following (in thousands):

General fund expenditures and transfers out over	
revenues and transfers in	\$ (50)
Fire Truck major fund expenditures	
financed with note payable	(835)
Police/Fire renovation major fund expenditures	(22)
Nonmajor funds expenditures and transfers out over	
revenues and transfers in	<u>(43)</u>
Total	\$ <u>(950)</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 \$1,878,543 while total fund balance was \$3,205,550. 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>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ⁽¹⁾	\$ 1,878,543	\$ 1,771,879	\$ 106,664	6.6%
Total fund balance	3,205,550	3,255,765	(50,215)	11.3%

⁽¹⁾ Includes General Stabilization fund balance of \$1,094,396 and \$1,102,619, respectively.

The total fund balance of the general fund changed by \$(50,215) during the current fiscal year. It should be noted that a transfers in to the general fund of \$285,244 represents annual recurring amounts from the enterprise funds for indirect costs appropriated in the general fund. Key factors in this change are as follows (in thousands):

Use of free cash and overlay surplus as a funding source	\$ (352)
Use of other sources as a funding source	(25)
Revenues in excess of budget	294
Expenditures less than budget	349
Other	<u>(316)</u>
Total	\$ <u>(50)</u>

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

	<u>6/30/14</u>	<u>6/30/13</u>	<u>Change</u>
General stabilization (unassigned)	\$ 1,094,396	\$ 1,102,619	\$ (8,223)
Health stabilization (committed)	<u>-</u>	<u>100,633</u>	<u>(100,633)</u>
Total	<u>\$ 1,094,396</u>	<u>\$ 1,203,252</u>	<u>\$ (108,856)</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 position of the enterprise funds at the end of the year amounted to \$2,777,891, a change of \$(188,695) 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 \$461,974. Major reasons for these amendments include (in thousands):

- \$ 212 Various department wage increases funded by taxes, free cash and transfer from stabilization funds
- \$ 36 Purchase of various vehicles and equipment funded by taxes
- \$ 83 Transfers to stabilization funds funded by free cash and taxes
- Improvements to the Veterans Memorial Building and Town/School fields funded by taxes
- \$ 75
- \$ 56 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 \$53,052,783 (net of accumulated depreciation), a change of \$(246,246) 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):

- \$ 136 Purchase of school equipment, and vehicles
- \$ 148 Library construction
- \$ 105 Building improvements
- \$ 809 Purchase of public safety vehicles and equipment

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$10,505,000, 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 Financial Statements.

Credit Rating. The Moody's credit rating remained at Aa3.

REQUESTS FOR INFORMATION

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

JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 8,873,309	\$ 2,004,174	\$ 10,877,483
Investments	114,793	-	114,793
Receivables, net of allowance for uncollectibles:			
Property taxes	576,080	-	576,080
Excises	57,268	-	57,268
User fees	-	606,274	606,274
Departmental and other	207,892	-	207,892
Intergovernmental	803,552	-	803,552
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	427,531	-	427,531
Betterments	10,629	677,015	687,644
Capital assets:			
Land and construction in progress	3,424,225	1,811,129	5,235,354
Other capital assets, net of accumulated depreciation	36,593,297	11,224,132	47,817,429
TOTAL ASSETS	51,088,576	16,322,724	67,411,300
LIABILITIES			
Current:			
Warrants payable	393,598	76,675	470,273
Accrued liabilities	530,788	52,793	583,581
Notes payable	3,757,649	325,733	4,083,382
Other current liabilities	534	-	534
Current portion of long-term liabilities:			
Bonds payable	610,000	475,000	1,085,000
Compensated absences	19,409	1,626	21,035
Landfill	16,123	-	16,123
Noncurrent:			
Bonds payable, net of current portion	5,675,000	3,745,000	9,420,000
Compensated absences, net of current portion	368,761	30,887	399,648
Landfill, net of current portion	259,359	-	259,359
Net OPEB obligation	6,799,656	114,880	6,914,536
TOTAL LIABILITIES	18,430,877	4,822,594	23,253,471
NET POSITION			
Net investment in capital assets	33,061,776	8,722,239	41,784,015
Restricted for:			
Grants and other statutory restrictions	2,785,149	-	2,785,149
Permanent funds:			
Nonexpendable	174,458	-	174,458
Expendable	10,957	-	10,957
Unrestricted	(3,374,641)	2,777,891	(596,750)
TOTAL NET POSITION	\$ 32,657,699	\$ 11,500,130	\$ 44,157,829

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

Program Revenues					Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
	Expenses	Services	Grants and	Grants and	Activities	Type	Total
			Contributions	Contributions		Activities	
Governmental Activities:							
General government	\$ 2,203,002	\$ 140,073	\$ 55,355	\$ -	\$ (2,007,574)	\$ -	\$ (2,007,574)
Public safety	3,551,192	507,249	(10,326)	-	(3,054,269)	-	(3,054,269)
Education	19,401,995	1,110,605	8,926,586	-	(9,364,804)	-	(9,364,804)
Public works	2,722,182	482,298	170,878	654,808	(1,414,198)	-	(1,414,198)
Health and human services	275,141	51,323	26,479	-	(197,339)	-	(197,339)
Culture and recreation	727,553	178,590	18,050	59,050	(471,863)	-	(471,863)
Employee benefits	4,823,219	-	-	-	(4,823,219)	-	(4,823,219)
Intergovernmental	336,971	-	-	-	(336,971)	-	(336,971)
Interest	212,804	-	-	-	(212,804)	-	(212,804)
Total Governmental Activities	34,254,059	2,470,138	9,187,022	713,858	(21,883,041)	-	(21,883,041)
Business-Type Activities:							
Water services	955,254	1,191,264	-	-	-	236,010	236,010
Sewer services	963,419	1,005,006	-	-	-	41,587	41,587
Total Business-Type Activities	1,918,673	2,196,270	-	-	-	277,597	277,597
Total	\$ 36,172,732	\$ 4,666,408	\$ 9,187,022	\$ 713,858	(21,883,041)	277,597	(21,605,444)
General Revenues, Transfers, and Contributions:							
Property taxes					17,253,582	-	17,253,582
Excises					1,036,395	-	1,036,395
Penalties, interest and other taxes					109,115	-	109,115
Grants and contributions not restricted to specific programs					998,243	-	998,243
Investment income					21,340	2,179	23,519
Miscellaneous					763,163	-	763,163
Loss on disposal of capital assets					(17,251)	-	(17,251)
Transfers, net					201,936	(201,936)	-
Permanent fund contributions					880	-	880
Total general revenues, transfers, and contributions					20,367,403	(199,757)	20,167,646
Change in Net Position					(1,515,638)	77,840	(1,437,798)
Net Position:							
Beginning of year					34,173,337	11,422,290	45,595,627
End of year					\$ 32,657,699	\$ 11,500,130	\$ 44,157,829

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	<u>General</u>	<u>Fire Truck Fund</u>	<u>New Police/ Fire Renovation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 3,716,062	\$ -	\$ 2,478,085	\$ 2,679,162	\$ 8,873,309
Investments	114,793	-	-	-	114,793
Receivables:					
Property taxes	1,198,410	-	-	2,460	1,200,870
Excises	151,286	-	-	-	151,286
Departmental and other	-	-	-	207,892	207,892
Intergovernmental	-	-	-	803,552	803,552
Betterments	-	-	-	11,810	11,810
	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,810</u>	<u>11,810</u>
TOTAL ASSETS	<u>\$ 5,180,551</u>	<u>\$ -</u>	<u>\$ 2,478,085</u>	<u>\$ 3,704,876</u>	<u>\$ 11,363,512</u>
LIABILITIES					
Warrants payable	\$ 266,897	\$ -	\$ -	\$ 126,701	\$ 393,598
Accrued liabilities	456,626	-	-	-	456,626
Notes payable	-	835,000	2,500,000	11,984	3,346,984
Other current liabilities	534	-	-	-	534
	<u>534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>534</u>
TOTAL LIABILITIES	724,057	835,000	2,500,000	138,685	4,197,742
DEFERRED INFLOWS OF RESOURCES	1,250,944	-	-	870,081	2,121,025
FUND BALANCES					
Nonspendable	-	-	-	174,458	174,458
Restricted	340,158	-	-	3,281,737	3,621,895
Committed	248,078	-	-	-	248,078
Assigned	738,771	-	-	-	738,771
Unassigned	1,878,543	(835,000)	(21,915)	(760,085)	261,543
	<u>1,878,543</u>	<u>(835,000)</u>	<u>(21,915)</u>	<u>(760,085)</u>	<u>261,543</u>
TOTAL FUND BALANCES	<u>3,205,550</u>	<u>(835,000)</u>	<u>(21,915)</u>	<u>2,696,110</u>	<u>5,044,745</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 5,180,551</u>	<u>\$ -</u>	<u>\$ 2,478,085</u>	<u>\$ 3,704,876</u>	<u>\$ 11,363,512</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total governmental fund balances	\$ 5,044,745
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	40,017,522
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,828,567
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(74,162)
<ul style="list-style-type: none">• 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>(14,158,973)</u>
Net position of governmental activities	\$ <u>32,657,699</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Fire Truck Fund</u>	<u>New Police/ Fire Renovation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 17,092,880	\$ -	\$ -	\$ 118,302	\$ 17,211,182
Excises	1,080,815	-	-	-	1,080,815
Penalties, interest and other taxes	108,783	-	-	332	109,115
Charges for services	205,408	-	-	2,031,622	2,237,030
Intergovernmental	8,721,422	-	-	1,788,727	10,510,149
Licenses and permits	188,505	-	-	-	188,505
Fines and forfeitures	15,073	-	-	-	15,073
Investment income	19,102	-	-	2,238	21,340
Contributions	-	-	-	188,403	188,403
Miscellaneous	275,448	-	-	674,654	950,102
Total Revenues	<u>27,707,436</u>	<u>-</u>	<u>-</u>	<u>4,804,278</u>	<u>32,511,714</u>
Expenditures:					
Current:					
General government	1,995,228	-	-	46,710	2,041,938
Public safety	3,045,332	835,000	21,915	340,137	4,242,384
Education	16,449,743	-	-	2,547,003	18,996,746
Public works	1,070,113	-	-	909,756	1,979,869
Health and human services	246,859	-	-	30,573	277,432
Culture and recreation	364,130	-	-	616,506	980,636
Employee benefits	3,653,930	-	-	-	3,653,930
Debt service	1,092,492	-	-	61,800	1,154,292
Intergovernmental	336,971	-	-	-	336,971
Total Expenditures	<u>28,254,798</u>	<u>835,000</u>	<u>21,915</u>	<u>4,552,485</u>	<u>33,664,198</u>
Excess (deficiency) of revenues over expenditures	(547,362)	(835,000)	(21,915)	251,793	(1,152,484)
Other Financing Sources (Uses):					
Transfers in	580,454	-	-	-	580,454
Transfers out	(83,307)	-	-	(295,210)	(378,517)
Total Other Financing Sources (Uses)	<u>497,147</u>	<u>-</u>	<u>-</u>	<u>(295,210)</u>	<u>201,937</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(50,215)	(835,000)	(21,915)	(43,417)	(950,547)
Fund Equity, at Beginning of Year, as restated	<u>3,255,765</u>	<u>-</u>	<u>-</u>	<u>2,739,527</u>	<u>5,995,292</u>
Fund Equity, at End of Year	<u>\$ 3,205,550</u>	<u>\$ (835,000)</u>	<u>\$ (21,915)</u>	<u>\$ 2,696,110</u>	<u>\$ 5,044,745</u>

The accompanying notes are an integral part of these 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, 2014

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (950,547)

- 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, net of disposals	1,235,317
Depreciation	(1,612,672)
Gain (Loss) on disposition of assets	(17,251)

- 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.

228,960

- 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 position:

Repayments of bonds and notes	936,591
Bond and note issuances	(186,000)

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

4,897

- 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	(1,169,289)
Change in compensated absence liability	(1,297)
Change in landfill liability	<u>15,653</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,515,638)

The accompanying notes are an integral part of these 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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Other Sources:				
Property taxes	\$ 16,927,909	\$ 17,107,963	\$ 17,107,963	\$ -
Excise taxes	842,000	842,000	1,080,815	238,815
Interest, penalties and other taxes	175,425	175,425	200,543	25,118
Licenses and permits	157,000	157,000	188,505	31,505
Fines and forfeitures	20,731	20,731	15,073	(5,658)
Charges for services	247,563	247,563	205,408	(42,155)
Intergovernmental	5,534,160	5,534,160	5,537,135	2,975
Interest earnings	20,500	20,500	15,921	(4,579)
Miscellaneous	351,146	351,146	401,160	50,014
Transfers in	533,578	693,578	691,578	(2,000)
Total Revenues and Other Sources	24,810,012	25,150,066	25,444,101	294,035
Expenditures and Other Uses:				
General government	1,952,262	2,054,629	1,886,432	168,197
Public safety	2,994,492	3,070,157	3,013,135	57,022
Education	13,395,807	13,418,304	13,381,611	36,693
Public works	916,505	1,090,602	1,049,669	40,933
Health and human services	237,663	255,072	248,899	6,173
Culture and recreation	373,520	373,520	366,629	6,891
Employee benefits	3,677,647	3,664,176	3,626,322	37,854
Intergovernmental	318,217	318,217	336,971	(18,754)
Debt service	1,136,071	1,136,071	1,122,247	13,824
Transfers out	65,374	148,784	148,784	-
Total Expenditures and Other Uses	25,067,558	25,529,532	25,180,699	348,833
Excess (deficiency) of revenues over expenditures	(257,546)	(379,466)	263,402	642,868
Other Financing Sources				
Use of free cash				
Non-recurring capital costs	191,614	208,509	-	(208,509)
Non-recurring transfer to stabilization fund	-	52,910	-	(52,910)
Non-recurring costs	38,485	51,207	-	(51,207)
Recurring costs	-	39,393	-	(39,393)
Use of bond premium	2,011	2,011	-	(2,011)
Other sources	25,436	25,436	-	(25,436)
Total Other Sources	257,546	379,466	-	(379,466)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 263,402	\$ 263,402

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 687,722	\$ 1,316,452	\$ 2,004,174
User fees, net of allowance for uncollectibles	302,540	303,734	606,274
Betterment fees, net of allowance for uncollectibles	-	677,015	677,015
Total current assets	990,262	2,297,201	3,287,463
Noncurrent:			
Capital assets:			
Land and construction in progress	1,811,129	-	1,811,129
Other capital assets, net of accumulated depreciation	5,531,202	5,692,930	11,224,132
Total noncurrent assets	7,342,331	5,692,930	13,035,261
TOTAL ASSETS	8,332,593	7,990,131	16,322,724
<u>LIABILITIES</u>			
Current:			
Warrants payable	74,473	2,202	76,675
Accrued liabilities	32,061	20,732	52,793
Notes payable	325,733	-	325,733
Current portion of long-term liabilities:			
Bonds payable	240,000	235,000	475,000
Compensated absence	947	679	1,626
Total current liabilities	673,214	258,613	931,827
Noncurrent:			
Bonds payable, net of current portion	2,015,000	1,730,000	3,745,000
Compensated absence, net of current portion	17,985	12,902	30,887
Net OPEB obligation	65,637	49,243	114,880
Total noncurrent liabilities	2,098,622	1,792,145	3,890,767
TOTAL LIABILITIES	2,771,836	2,050,758	4,822,594
<u>NET POSITION</u>			
Net investment in capital assets	4,945,216	3,777,023	8,722,239
Unrestricted	615,541	2,162,350	2,777,891
TOTAL NET POSITION	\$ 5,560,757	\$ 5,939,373	\$ 11,500,130

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenues:			
Charges for services	\$ 1,180,954	\$ 996,502	\$ 2,177,456
Other	<u>10,311</u>	<u>8,504</u>	<u>18,815</u>
Total Operating Revenues	1,191,265	1,005,006	2,196,271
Operating Expenses:			
Operating expenses	658,419	698,342	1,356,761
Depreciation	<u>211,732</u>	<u>193,766</u>	<u>405,498</u>
Total Operating Expenses	<u>870,151</u>	<u>892,108</u>	<u>1,762,259</u>
Operating Income	321,114	112,898	434,012
Nonoperating Revenues (Expenses):			
Interest income	1,435	744	2,179
Interest expense	<u>(85,103)</u>	<u>(71,311)</u>	<u>(156,414)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(83,668)</u>	<u>(70,567)</u>	<u>(154,235)</u>
Income Before Transfers	237,446	42,331	279,777
Transfers:			
Transfers in	83,307	-	83,307
Transfers out	<u>(132,648)</u>	<u>(152,596)</u>	<u>(285,244)</u>
Change in Net Position	188,105	(110,265)	77,840
Net Position at Beginning of Year	<u>5,372,652</u>	<u>6,049,638</u>	<u>11,422,290</u>
Net Position at End of Year	<u>\$ 5,560,757</u>	<u>\$ 5,939,373</u>	<u>\$ 11,500,130</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 1,180,892	\$ 1,074,803	\$ 2,255,695
Payments to vendors and employees	(585,531)	(690,651)	(1,276,182)
Net Cash Provided By Operating Activities	595,361	384,152	979,513
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfer in	83,307	-	83,307
Transfers out	(132,648)	(152,596)	(285,244)
Net Cash (Used for) Noncapital Financing Activities	(49,341)	(152,596)	(201,937)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(502,261)	(51,598)	(553,859)
Principal payments on bonds and notes	(339,343)	(262,192)	(601,535)
Proceeds from bonds and notes	325,734	-	325,734
Interest expense	(88,516)	(74,130)	(162,646)
Net Cash (Used For) Capital and Related Financing Activities	(604,386)	(387,920)	(992,306)
<u>Cash Flows From Investing Activities:</u>			
Investment income	1,435	744	2,179
Net Cash Provided By Investing Activities	1,435	744	2,179
Net Change in Cash and Short-Term Investments	(56,931)	(155,620)	(212,551)
Cash and Short-Term Investments, Beginning of Year	744,653	1,472,072	2,216,725
Cash and Short-Term Investments, End of Year	\$ 687,722	\$ 1,316,452	\$ 2,004,174
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ 321,114	\$ 112,898	\$ 434,012
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	211,732	193,766	405,498
Changes in assets and liabilities:			
User fees	(10,373)	69,797	59,424
Warrants and accounts payable	52,258	(3,310)	48,948
Compensated absence, net of current portion	2,258	1,035	3,293
Other post employment benefits	18,372	9,966	28,338
Net Cash Provided By Operating Activities	\$ 595,361	\$ 384,152	\$ 979,513

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Private Purpose Trust <u>Funds</u>	Other Post Employment Benefit <u>Fund</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ <u>136,896</u>	\$ <u>100,821</u>	\$ <u>68,227</u>
Total Assets	136,896	100,821	68,227
<u>LIABILITIES AND NET POSITION</u>			
Other liabilities	<u>-</u>	<u>-</u>	<u>68,227</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>68,227</u>
<u>NET POSITION</u>			
Total net position held in trust	\$ <u><u>136,896</u></u>	\$ <u><u>100,821</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose <u>Trust Funds</u>	Other Post Employment Benefit <u>Fund</u>
Additions:		
Investment Income	\$ 2,084	\$ -
Contributions	<u>8,311</u>	<u>100,821</u>
Total additions	10,395	100,821
Deductions:		
Education	<u>15,775</u>	<u>-</u>
Total deductions	<u>15,775</u>	<u>-</u>
Net (decrease)	(5,380)	100,821
Net position:		
Beginning of year	<u>142,276</u>	<u>-</u>
End of year	<u>\$ 136,896</u>	<u>\$ 100,821</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MILLIS, MASSACHUSETTS

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

The accounting policies of the (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 2014, it was determined that no entities met the required GASB 14 (as amended) 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 Position and the Statement of Activities) 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 *Fire Truck fund* accounts for purchasing the new fire truck.

- The *Police/Fire Renovations fund* accounts for constructing the new police station and renovating the existing fire station.

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.

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.

The *Other Post-employment Trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.

The *Agency Funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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 2014 tax levy reflected an excess capacity of \$39,994.

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 Position.

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 position".

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 Position - Net position represents the difference between assets and liabilities. Net Position 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 Position 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 position is 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 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 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)	\$ 27,707,436	\$ 28,254,798
Other financing sources/uses (GAAP Basis)	<u>580,454</u>	<u>83,307</u>
Subtotal (GAAP Basis)	28,287,890	28,338,105
Adjust tax revenue to accrual basis	12,546	-
To reverse expenditures of prior year appropriation carryforwards	-	(749,916)
To book current year appropriation carryforwards	-	633,392
To reverse the effect of non- budgeted State contributions for teachers retirement	(3,004,459)	(3,004,459)
To reverse nonbudgeted activity	<u>148,124</u>	<u>(36,423)</u>
Budgetary Basis	\$ <u><u>25,444,101</u></u>	\$ <u><u>25,180,699</u></u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2014:

<u>Special Revenue Funds</u>	
Off-Duty Detail	\$ (31,600)
Gas Account	(45,967)
e-911 Training	(9,380)
911 Grant	(21,727)
Fire Turnout Gear	(45,000)
911 Train/EMD Reg Grant	(4,409)
Chapter 90	(516,333)
Animal Control Shelter	(116)
Academic Support	(4,960)
Teacher Quality	(118)
SPED Early Childhood	(3,358)
SPED 94-142 Allocation	(65,134)

(continued)

(continued)

Capital Project Funds:

Main Street Culvert Repairs	(11,983) ^(A)
Fire Truck	(835,000) ^(A)
New Police/Fire Renovation	(21,915) ^(A)
	<u>\$ (1,617,000)</u>

^(A) Bans issued before year-end cover these deficits.

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, 2014, none of the Town's bank balance of \$11,426,258 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>115</u>	N/A	\$ <u>115</u>
Total investments	\$ <u>115</u>		\$ <u>115</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	\$ 87
Century Bank	<u>28</u>
Total	\$ <u>115</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>
Certificates of deposit	\$ <u>115</u>	\$ <u>87</u>	\$ <u>28</u>
Total	\$ <u>115</u>	\$ <u>87</u>	\$ <u>28</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, 2014 consist of the following (in thousands):

Real Estate		
2014	\$ 427	
2013	125	
2012	21	
2011	<u>8</u>	
		581
Personal Property		
2014	12	
2013	12	
2012	7	
2011	6	
2010 & prior	<u>28</u>	
		65
Tax Liens and foreclosures		553
CPA		<u>2</u>
Total		\$ <u><u>1,201</u></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	\$ 197	\$ -
Excises	\$ 94	\$ -
Betterments	\$ 1	\$ 75
Utilities	\$ -	\$ 32

7. **Intergovernmental Receivables**

This balance represents various reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2014.

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, 2014 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 18,761	\$ 6,708	\$ -	\$ 25,469
Machinery, equipment, and furnishings	6,013	907	(230)	6,690
Infrastructure	<u>25,457</u>	<u>6</u>	<u>-</u>	<u>25,463</u>
Total capital assets, being depreciated	50,231	7,621	(230)	57,622
Less accumulated depreciation for:				
Buildings and improvements	(8,297)	(538)	-	(8,835)
Machinery, equipment, and furnishings	(3,926)	(400)	213	(4,113)
Infrastructure	<u>(7,406)</u>	<u>(675)</u>	<u>-</u>	<u>(8,081)</u>
Total accumulated depreciation	<u>(19,629)</u>	<u>(1,613)</u>	<u>213</u>	<u>(21,029)</u>
Total capital assets, being depreciated, net	30,602	6,008	(17)	36,593
Capital assets, not being depreciated:				
Land	3,402	-	-	3,402
Construction in progress	<u>6,408</u>	<u>22</u>	<u>(6,407)</u>	<u>23</u>
Total capital assets, not being depreciated	<u>9,810</u>	<u>22</u>	<u>(6,407)</u>	<u>3,425</u>
Governmental activities capital assets, net	<u>\$ 40,412</u>	<u>\$ 6,030</u>	<u>\$ (6,424)</u>	<u>\$ 40,018</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,474	\$ -	\$ -	\$ 2,474
Machinery, equipment, and furnishings	1,574	119	-	1,693
Infrastructure	<u>13,365</u>	<u>-</u>	<u>-</u>	<u>13,365</u>
Total capital assets, being depreciated	17,413	119	-	17,532
Less accumulated depreciation for:				
Buildings and improvements	(1,494)	(49)	-	(1,543)
Machinery, equipment, and furnishings	(1,143)	(34)	-	(1,177)
Infrastructure	<u>(3,265)</u>	<u>(323)</u>	<u>-</u>	<u>(3,588)</u>
Total accumulated depreciation	<u>(5,902)</u>	<u>(406)</u>	<u>-</u>	<u>(6,308)</u>
Total capital assets, being depreciated, net	11,511	(287)	-	11,224
Capital assets, not being depreciated:				
Land	1,376	-	-	1,376
Construction in progress	<u>-</u>	<u>435</u>	<u>-</u>	<u>435</u>
Total capital assets, not being depreciated	<u>1,376</u>	<u>435</u>	<u>-</u>	<u>1,811</u>
Business-type activities capital assets, net	<u>\$ 12,887</u>	<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 13,035</u>

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

Governmental Activities:	
General government	\$ 167
Public safety	137
Education	534
Public works	761
Health and human services	13
Culture and recreation	<u>1</u>
Total depreciation expense - governmental activities	\$ <u>1,613</u>
Business-Type Activities:	
Water	\$ 212
Sewer	<u>194</u>
Total depreciation expense - business-type activities	\$ <u>406</u>

10. **Warrants Payable**

Warrants payable represent 2014 expenditures paid by July 15, 2014 as permitted by law.

11. **Notes Payable**

The Town had the following notes outstanding at June 30, 2014:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/14	
Modular classrooms	1.00%	07/02/13	07/02/14	\$ 26,000	(1)
Ambulance	1.00%	07/12/13	07/11/14	75,000	(1)
Causeway St. Culvert	1.00%	12/13/13	12/12/14	72,000	(1)
Transfer Station	1.00%	08/21/13	08/21/14	29,476	(1)
Flood Control	1.00%	08/21/13	08/21/14	11,855	(1)
Flood Proofing	1.00%	08/21/13	08/21/14	16,334	(1)
Dewey Land Purchase	0.65%	07/19/13	07/18/14	180,000	(1)
Fire Truck	0.65%	07/17/13	07/17/14	835,000	
Police and Fire Stations	0.55%	06/27/14	06/26/15	2,500,000	
Main Street Culvert	1.00%	05/23/14	05/22/15	11,984	
Water Mains	0.65%	02/22/13	08/21/14	19,233	
Water System Improvements	1.00%	10/25/13	10/24/14	28,500	
Water System Improvements	0.75%	01/15/14	01/15/15	<u>278,000</u>	
Total				\$ <u>4,083,382</u>	

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

The following summarizes activity in notes payable during fiscal year 2014:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Governmental:				
Modular classrooms	\$ 66,000	\$ 26,000	\$ (66,000)	\$ 26,000
Ambulance	90,000	75,000	(90,000)	75,000
Landfill	13,000	-	(13,000)	-
Causeway St. Culvert	84,000	72,000	(84,000)	72,000
Transfer Station	44,214	29,476	(44,214)	29,476
Flood Control	121,000	11,855	(121,000)	11,855
Flood Proofing	65,000	16,334	(65,000)	16,334
Dewey Land Purchase	240,000	180,000	(240,000)	180,000
Fire Truck	-	835,000	-	835,000
Police and Fire Stations	-	2,500,000	-	2,500,000
Main Street Culvert	-	11,984	-	11,984
Subtotal	723,214	3,757,649	(723,214)	3,757,649
Enterprise:				
SCADA	18,106	-	(18,106)	-
Water Mains	29,233	19,233	(29,233)	19,233
Wells 3 & 4 Repairs	38,500	28,500	(38,500)	28,500
Water System Improvements	-	278,000	-	278,000
Subtotal	85,839	325,733	(85,839)	325,733
Total	\$ 809,053	\$ 4,083,382	\$ (809,053)	\$ 4,083,382

12. 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 6/30/14
<u>Governmental Activities:</u>			
Community Center and Town Hall	07/01/15	2.80%	\$ 220,000
Ambulance bay	07/01/15	2.80%	15,000
Landfill capping	07/01/17	2.80%	175,000
Land acquisition	10/15/18	2.80%	225,000
DPW garage	08/15/18	3.97%	100,000
Public way	10/01/15	3.99%	110,000
Surface drain	10/01/25	3.91%	310,000
Surface drain	02/15/23	3.30%	110,000
Public Way - Klifford	02/15/26	3.31%	270,000
Library Construction	02/15/33	3.09%	<u>4,750,000</u>
Total Governmental Activities:			<u>\$ 6,285,000</u>

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/14
<u>Business-Type Activities:</u>			
Well field development	10/15/20	2.80%	\$ 500,000
Water	08/15/23	4.28%	135,000
Water	08/15/23	4.27%	815,000
Water mains - Pleasant St.	10/01/16	3.93%	30,000
Water mains	02/15/33	3.30%	128,000
Water mains	02/15/33	3.30%	647,000
Sewer improvements	07/01/17	2.80%	215,000
Sewer improvements	10/15/20	2.80%	500,000
Sewer improvements	10/01/26	3.91%	1,115,000
Sewer improvements	02/15/23	3.30%	<u>135,000</u>
Total Business-Type Activities:			<u>\$ 4,220,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2014 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 610,000	\$ 195,993	\$ 805,993
2016	605,000	177,433	782,433
2017	430,000	161,178	591,178
2018	420,000	148,422	568,422
2019	360,000	135,975	495,975
2020 - 2024	1,520,000	504,075	2,024,075
2025 - 2029	1,340,000	239,675	1,579,675
2030 - 2033	<u>1,000,000</u>	<u>68,375</u>	<u>1,068,375</u>
Total	<u>\$ 6,285,000</u>	<u>\$ 1,631,126</u>	<u>\$ 7,916,126</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, 2014.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 475,000	\$ 148,336	\$ 623,336
2016	475,000	132,727	607,727
2017	470,000	117,049	587,049
2018	445,000	102,361	547,361
2019	395,000	86,871	481,871
2020 - 2024	1,410,000	230,382	1,640,382
2025 - 2029	430,000	45,610	475,610
2030 - 2033	<u>120,000</u>	<u>8,205</u>	<u>128,205</u>
Total	<u>\$ 4,220,000</u>	<u>\$ 871,541</u>	<u>\$ 5,091,541</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2014, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/13</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/14</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/14</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 6,909	\$ -	\$ (624)	\$ 6,285	\$ (610)	\$ 5,675
Other:						
Accrued employee benefits	386	23	(20)	389	(20)	369
Landfill closure	291	-	(16)	275	(16)	259
Net OPEB obligation	<u>5,631</u>	<u>2,370</u>	<u>(1,201)</u>	<u>6,800</u>	<u>-</u>	<u>6,800</u>
Totals	<u>\$ 13,217</u>	<u>\$ 2,393</u>	<u>\$ (1,861)</u>	<u>\$ 13,749</u>	<u>\$ (646)</u>	<u>\$ 13,103</u>

	Total Balance 7/1/13	Additions	Reductions	Total Balance 6/30/14	Less Current Portion	Equals Long-Term Portion 6/30/14
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,736	\$ -	\$ (516)	\$ 4,220	\$ (475)	\$ 3,745
Other:						
Accrued employee benefits	29	4	-	33	(2)	31
Net OPEB obligation	86	37	(8)	115	-	115
Totals	<u>\$ 4,851</u>	<u>\$ 41</u>	<u>\$ (524)</u>	<u>\$ 4,368</u>	<u>\$ (477)</u>	<u>\$ 3,891</u>

13. 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 \$275,482 as landfill closure and postclosure care liability at June 30, 2014. This amount is based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2014:

	Fund Basis	
	Governmental	
	General Fund	Special Revenues
Unavailable Revenue	\$ <u>1,250,944</u>	\$ <u>870,081</u>

15. Restricted Net Position

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

Permanent fund restricted net position 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.

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, 2014:

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.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2014:

	General Fund	Fire Truck Fund	New Police/ Fire Renovation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 174,458	\$ 174,458
Total Nonspendable	-	-	-	174,458	174,458
Restricted					
Reserved for debt premiums	340,158	-	-	-	340,158
Bonded projects	-	-	-	485,632	485,632
Special revenue funds:					
School choice	-	-	-	619,432	619,432
Ambulance	-	-	-	315,475	315,475
Community preservation	-	-	-	402,754	402,754
Circuit breaker	-	-	-	127,750	127,750
Extended day	-	-	-	178,607	178,607
School transportation revolving	-	-	-	196,159	196,159
Other	-	-	-	919,087	919,087
Expendable permanent funds	-	-	-	36,841	36,841
Total Restricted	340,158	-	-	3,281,737	3,621,895
Committed					
Reserved for articles	248,078	-	-	-	248,078
Total Committed	248,078	-	-	-	248,078
Assigned					
Encumbrances	330,314	-	-	-	330,314
For next year's expenditures	408,457	-	-	-	408,457
Total Assigned	738,771	-	-	-	738,771
Unassigned ⁽¹⁾	1,878,543	(835,000)	(21,915)	(760,085)	261,543
Total Unassigned	1,878,543	(835,000)	(21,915)	(760,085)	261,543
Total Fund Balance	\$ 3,205,550	\$ (835,000)	\$ (21,915)	\$ 2,696,110	\$ 5,044,745

⁽¹⁾ Includes General Stabilization fund balance of \$1,094,396

17. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund Financial Statements. The following is an analysis of interfund transfers made in fiscal year 2014:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 580,454	\$ 83,307
Nonmajor Funds:		
Special Revenue Funds:		
Ambulance	-	250,000
Cemetery Sale of Lots	-	7,600
Cell Tower	-	36,610
Trust Funds		
Expendable	-	1,000
Subtotal Nonmajor Funds	-	295,210
<u>Business-Type Funds</u>		
Water Fund	83,307	132,648
Sewer Fund	-	152,596
Grand Total	<u>\$ 663,761</u>	<u>\$ 663,761</u>

The transfers in to the General Fund from the Water and Sewer funds of \$285,244 are to cover indirect costs incurred by the General Fund. Transfers in to the General Fund from the various special revenues funds are required by budgetary authorizations.

18. Subsequent Events

Subsequent to June 30, 2014, the Town paid off and rolled forward many of the bond anticipating notes included in note 11. In addition, the Town incurred the following additional debt:

	<u>Amount</u>	<u>Rate</u>	<u>Date of issue</u>	<u>Date of Maturity</u>
Bond Anticipation Note Veterans Memorial Project	\$ 425,000	0.55%	7/18/2014	7/17/2015
Bond Anticipation Note Fields Improvement	150,000	0.55%	9/15/2014	9/15/2015
Bond Anticipation Note Sewer Extension	92,000	0.55%	9/15/2014	9/15/2015

19. 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.

In 2014, the Town and the general contractor for the Library Construction project attended mediation/discussions to reach a settlement agreement. As of the issuance of the financial statements, the general contractor has agreed to the terms; however, the Town has not formally approved the terms.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the Board of Selectmen, the probable outcome of these cases, at the present time, is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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.

20. 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 Position 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, 2012, the actuarial valuation date, approximately 98 retirees and 287 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 2014 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, 2014, 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, 2012.

Annual Required Contribution (ARC)	\$ 1,971,227
Interest on net OPEB obligation	228,676
Amortization on net OPEB obligation	207,787
Adjustment to ARC	<u>(317,894)</u>
Annual OPEB cost	2,089,796
Contributions made	<u>(892,169)</u>
Increase in net OPEB obligation	1,197,627
Net OPEB obligation - beginning of year	<u>5,716,909</u>
Net OPEB obligation - end of year	<u><u>\$ 6,914,536</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>
2014	\$ 2,089,796	42.7%	\$6,914,536
2013	\$ 1,994,753	37.7%	\$5,716,909
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, 2014 is recorded as a non-current liability.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2012, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 19,285,760
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 19,285,760</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, 2012 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 6.0 % 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 %.

21. 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 Massa-

chusetts General Laws. The Town's contributions to the System for the years ended June 30, 2014, 2013, and 2012 were \$1,106,647, \$1,059,734, and \$1,009,685, 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.

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 unavailable.

In fiscal year 2014, the Commonwealth of Massachusetts contributed \$3,004,459 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. 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 during fiscal year 2014 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	\$ 580
August	764
September	800
October	760
November	808
December	952
January	828
February	1,158
March	981
April	1,071
May	875
June	<u>1,659</u>
Total	<u>\$ 11,236</u>

23. 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.

24. Implementation of New GASB Standards

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 actuarially accrued liability of the Norfolk County Retirement System.

25. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2014, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/13 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/13 (as restated)
General fund	\$ 3,255,765	\$ -	\$ 3,255,765
Library Construction	124,888	(124,888)	-
Fire Truck	-	-	-
New Police/Fire Renovation	-	-	-
Nonmajor funds	<u>2,614,639</u>	<u>124,888</u>	<u>2,739,527</u>
Total	<u>\$ 5,995,292</u>	<u>\$ -</u>	<u>\$ 5,995,292</u>

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

June 30, 2014
(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]
07/01/10	\$ -	\$ 19,593,487	\$ 19,593,487	0.0%	N/A	N/A
07/01/08	\$ -	\$ 18,166,278	\$ 18,166,278	0.0%	\$ 11,824,120	153.6%
07/01/12	\$ -	\$ 19,285,760	\$ 19,285,760	0.0%	N/A	N/A

**NORFOLK COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION**

(Unaudited)

**Employees' Retirement System
Schedule of Funding Progress**

Employees' Retirement System

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]
01/01/12	\$ 608,235,096	\$ 1,128,960,288	\$ 520,725,192	53.9%	\$ 229,095,409	227.3%
01/01/10	\$ 600,790,835	\$ 1,001,881,055	\$ 401,090,220	60.0%	\$ 223,332,595	179.6%
01/01/08	\$ 596,157,147	\$ 907,719,124	\$ 311,561,977	65.7%	\$ 223,814,977	139.2%

**Employees' Retirement System
Schedule of Employer Contributions**

System Wide				Town of Millis	
Plan Year-end	Annual Required Contributions	Actual Contributions	Percent Contributed	Actual Contributions	Town Contributions as a % of Actual Contributions
12/31/13	\$ 44,800,000	\$ 44,800,000	100%	\$ 1,106,647	2.5%
12/31/12	\$ 42,714,639	\$ 42,714,639	100%	\$ 1,059,734	2.5%
12/31/11	\$ 41,206,587	\$ 41,206,587	100%	\$ 1,009,685	2.5%
12/31/10	\$ 39,749,857	\$ 39,749,857	100%	\$ 938,284	2.4%

See Independent Auditors' Report.