

TOWN OF MILLIS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

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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 (the Town), as of and for the year ended June 30, 2015, 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, 2015, 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, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions 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 May 2, 2016 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

May 2, 2016

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, 2015.

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 \$28,796,591 (i.e., net position), a change of \$(2,132,338) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$4,553,799, a change of \$(490,946) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,946,995, a change of \$68,452 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$9,420,000, a change of \$(1,085,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

NET POSITION

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------------------|------------------------------------|------------------|-------------------------------------|------------------|------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Current and other assets | \$ 9,915 | \$ 11,071 | \$ 3,988 | \$ 3,287 | \$ 13,903 | \$ 14,358 |
| Capital assets | <u>39,971</u> | <u>40,018</u> | <u>12,695</u> | <u>13,035</u> | <u>52,666</u> | <u>53,053</u> |
| Total assets | 49,886 | 51,089 | 16,683 | 16,322 | 66,569 | 67,411 |
| Deferred outflows | <u>539</u> | <u>-</u> | <u>33</u> | <u>-</u> | <u>572</u> | <u>-</u> |
| Total assets and deferred outflows | <u>\$ 50,425</u> | <u>\$ 51,089</u> | <u>\$ 16,716</u> | <u>\$ 16,322</u> | <u>\$ 67,141</u> | <u>\$ 67,411</u> |
| Long-term liabilities | \$ 28,572 | \$ 13,748 | \$ 4,965 | \$ 4,367 | \$ 33,537 | \$ 18,115 |
| Other liabilities | <u>4,030</u> | <u>4,683</u> | <u>778</u> | <u>455</u> | <u>4,808</u> | <u>5,138</u> |
| Total liabilities | 32,602 | 18,431 | 5,743 | 4,822 | 38,345 | 23,253 |
| Net position: | | | | | | |
| Net investment in capital assets | 33,535 | 33,062 | 9,111 | 8,722 | 42,646 | 41,784 |
| Restricted | 2,794 | 2,971 | - | - | 2,794 | 2,971 |
| Unrestricted | <u>(18,506)</u> | <u>(3,375) *</u> | <u>1,862</u> | <u>2,778 *</u> | <u>(16,644)</u> | <u>(597)</u> |
| Total net position | <u>17,823</u> | <u>32,658</u> | <u>10,973</u> | <u>11,500</u> | <u>28,796</u> | <u>44,158</u> |
| Total liabilities and net position | <u>\$ 50,425</u> | <u>\$ 51,089</u> | <u>\$ 16,716</u> | <u>\$ 16,322</u> | <u>\$ 67,141</u> | <u>\$ 67,411</u> |

*Due to fiscal year 2015 being the first year of implementation of GASB 68, prior periods have not been restated in accordance with standards. Refer to Note 26.

CHANGES IN NET POSITION

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|------------------------------------|--------------------|-------------------------------------|--------------------|------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 3,112 | \$ 2,470 | \$ 2,658 | \$ 2,195 | \$ 5,770 | \$ 4,665 |
| Operating grants and contributions | 7,815 | 9,187 | - | - | 7,815 | 9,187 |
| Capital grants and contributions | 367 | 714 | - | - | 367 | 714 |
| General revenues: | | | | | | |
| Property taxes | 17,926 | 17,255 | - | - | 17,926 | 17,255 |
| Excises | 1,114 | 1,036 | - | - | 1,114 | 1,036 |
| Penalties and interest on taxes | 181 | 109 | - | - | 181 | 109 |
| Grants and contributions not restricted to specific programs | 1,034 | 998 | - | - | 1,034 | 998 |
| Investment income | 19 | 21 | 1 | 2 | 20 | 23 |
| Other | 303 | 746 | - | - | 303 | 746 |
| Total revenues | <u>31,871</u> | <u>32,536</u> | <u>2,659</u> | <u>2,197</u> | <u>34,530</u> | <u>34,733</u> |
| Expenses: | | | | | | |
| General government | 2,297 | 2,203 | - | - | 2,297 | 2,203 |
| Public safety | 3,918 | 3,551 | - | - | 3,918 | 3,551 |
| Education | 18,929 | 19,402 | - | - | 18,929 | 19,402 |
| Public works | 2,370 | 2,722 | - | - | 2,370 | 2,722 |
| Human services | 297 | 275 | - | - | 297 | 275 |
| Culture and recreation | 863 | 728 | - | - | 863 | 728 |
| Employee benefits | 5,308 | 4,823 | - | - | 5,308 | 4,823 |
| Intergovernmental | 324 | 337 | - | - | 324 | 337 |
| Interest on long-term debt | 214 | 213 | - | - | 214 | 213 |
| Water | - | - | 1,021 | 955 | 1,021 | 955 |
| Sewer | - | - | 1,130 | 963 | 1,130 | 963 |
| Total expenses | <u>34,520</u> | <u>34,254</u> | <u>2,151</u> | <u>1,918</u> | <u>36,671</u> | <u>36,172</u> |
| Change in net position before transfers | (2,649) | (1,718) | 508 | 279 | (2,141) | (1,439) |
| Transfers in (out) | 268 | 202 | (268) | (202) | - | - |
| Permanent fund contributions | 4 | 1 | - | - | 4 | 1 |
| Change in net position | <u>(2,377)</u> | <u>(1,515)</u> | <u>240</u> | <u>77</u> | <u>(2,137)</u> | <u>(1,438)</u> |
| Net position - beginning of year, as restated | <u>20,196</u> | <u>34,173</u> | <u>10,733</u> | <u>11,423</u> | <u>30,929</u> | <u>45,596</u> |
| Net position - end of year | <u>\$ 17,819</u> | <u>\$ 32,658 *</u> | <u>\$ 10,973</u> | <u>\$ 11,500 *</u> | <u>\$ 28,792</u> | <u>\$ 44,158</u> |

*July 1, 2014 net position was restated for GASB 68, while prior periods were not restated.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The largest portion of net position \$42,645,813 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, \$2,794,351, represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position has a negative balance of \$(16,643,573) for fiscal year 2015. This resulted primarily from the adoption of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement established standards for the measurement, recognition, and presentation of net pension liability in the Town's financial statements. Net pension liabilities recorded on the statement of net position in accordance with GASB Statement No. 68 totaled \$13,867,460 for the year ended June 30, 2015.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(2,372,630). Key elements of this change are as follows (in thousands):

| | |
|--|--------------------------|
| Net OPEB obligation change | \$ (1,386) |
| Depreciation over debt service principal | (929) |
| Other | <u>(58)</u> |
| Total | <u><u>\$ (2,373)</u></u> |

Business-type activities. Business-type activities for the year resulted in a change in net position of \$240,292. Key elements of this change are as follows (in thousands):

| | |
|------------------|----------------------|
| Water operations | \$ 260 |
| Sewer operations | <u>(20)</u> |
| Total | <u><u>\$ 240</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 \$4,553,799, a change of \$(490,946) in comparison to the prior year. Most of this change was attributable to the following (in thousands):

| | |
|---|-----------------|
| Police/Fire renovation major fund expenditures financed with note payable | \$ (892) |
| Nonmajor funds revenues and transfers in over expenditures and transfers out | 396 |
| Other | <u>5</u> |
| Total | <u>\$ (491)</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 \$1,946,995 while total fund balance was \$3,211,108. 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>6/30/15</u> | <u>6/30/14</u> | <u>Change</u> | <u>% of Total General Fund Expenditures</u> |
|--|----------------|----------------|---------------|---|
| Unassigned fund balance ⁽¹⁾ | \$ 1,946,995 | \$ 1,878,543 | \$ 68,452 | 7.4% |
| Total fund balance | \$ 3,211,108 | \$ 3,205,550 | \$ 5,558 | 12.3% |

⁽¹⁾ Includes General Stabilization fund balance of \$929,322 and \$1,094,396, respectively.

The total fund balance of the general fund changed by \$5,558 during the current fiscal year. It should be noted that a transfers in to the general fund of \$318,338 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 | \$ (487) |
| Revenues in excess of budget | 431 |
| Expenditures less than budget | 154 |
| Other | <u>(92)</u> |
| Total | <u>\$ 6</u> |

Included in the total general unassigned fund balance is the Town's stabilization account with a year-end balance of \$929,322, a change of \$(165,074) in comparison to the prior year.

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 \$1,862,120, a change of \$(915,771) in comparison to the prior year. The change includes a restatement of \$(767,277) for GASB 68. 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 \$278,117. The major reason for the amendments was related to public works snow and ice expenses funded by a transfer from stabilization funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$52,665,509 (net of accumulated depreciation), a change of \$(387,274) 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):

- \$ 859 Renovations to public safety building
- \$ 404 Veterans memorial building improvements
- \$ 244 Purchase of school department and public safety vehicles
- \$ 152 Library construction
- \$ 145 Town field improvements

Long-term debt. At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$9,420,000, 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, 2015

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| Assets: | | | |
| Current: | | | |
| Cash and short-term investments | \$ 8,315,670 | \$ 2,352,160 | \$ 10,667,830 |
| Investments | 115,403 | - | 115,403 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 428,242 | - | 428,242 |
| Excises | 68,360 | - | 68,360 |
| User fees | - | 1,072,615 | 1,072,615 |
| Departmental and other | 188,680 | - | 188,680 |
| Intergovernmental | 323,364 | - | 323,364 |
| Noncurrent: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 466,426 | - | 466,426 |
| Betterments | 9,048 | 563,222 | 572,270 |
| Capital assets: | | | |
| Land and construction in progress | 4,924,125 | 1,890,623 | 6,814,748 |
| Other capital assets, net of accumulated depreciation | 35,046,504 | 10,804,257 | 45,850,761 |
| TOTAL ASSETS | 49,885,822 | 16,682,877 | 66,568,699 |
| DEFERRED OUTFLOWS OF RESOURCES | 539,441 | 33,214 | 572,655 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 50,425,263 | \$ 16,716,091 | \$ 67,141,354 |
| LIABILITIES AND NET POSITION | | | |
| Liabilities: | | | |
| Current: | | | |
| Warrants payable | \$ 245,202 | \$ 17,305 | \$ 262,507 |
| Accrued liabilities | 606,018 | 48,177 | 654,195 |
| Notes payable | 3,177,240 | 712,500 | 3,889,740 |
| Other current liabilities | 1,648 | - | 1,648 |
| Current portion of long-term liabilities: | | | |
| Notes payable | 1,034,072 | 277,933 | 1,312,005 |
| Bonds payable | 605,000 | 475,000 | 1,080,000 |
| Compensated absences | 24,058 | - | 24,058 |
| Landfill | 9,623 | - | 9,623 |
| Noncurrent: | | | |
| Bonds payable, net of current portion | 5,070,000 | 3,270,000 | 8,340,000 |
| Compensated absences, net of current portion | 457,105 | - | 457,105 |
| Landfill, net of current portion | 123,128 | - | 123,128 |
| Net OPEB obligation | 8,185,576 | 137,718 | 8,323,294 |
| Net pension liability | 13,063,147 | 804,313 | 13,867,460 |
| TOTAL LIABILITIES | 32,601,817 | 5,742,946 | 38,344,763 |
| Net Position: | | | |
| Net investment in capital assets | 33,534,788 | 9,111,025 | 42,645,813 |
| Restricted for: | | | |
| Grants and other statutory restrictions | 2,605,102 | - | 2,605,102 |
| Permanent funds: | | | |
| Nonexpendable | 178,168 | - | 178,168 |
| Expendable | 11,081 | - | 11,081 |
| Unrestricted | (18,505,693) | 1,862,120 | (16,643,573) |
| TOTAL NET POSITION | 17,823,446 | 10,973,145 | 28,796,591 |
| TOTAL LIABILITIES AND NET POSITION | \$ 50,425,263 | \$ 16,716,091 | \$ 67,141,354 |

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

TOWN OF MILLIS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

| | | Program Revenues | | | |
|----------------------------------|----------------------|---------------------------------|---|---|------------------------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Net (Expenses) Revenues</u> |
| Governmental Activities: | | | | | |
| General government | \$ 2,296,876 | \$ 222,732 | \$ 14,572 | \$ - | \$ (2,059,572) |
| Public safety | 3,917,577 | 592,771 | 163,313 | - | (3,161,493) |
| Education | 18,928,611 | 1,477,923 | 7,515,997 | - | (9,934,691) |
| Public works | 2,369,562 | 605,000 | 17,242 | 189,958 | (1,557,362) |
| Health and human services | 296,851 | 45,659 | 81,467 | - | (169,725) |
| Culture and recreation | 863,391 | 168,449 | 23,366 | 177,113 | (494,463) |
| Employee benefits | 5,307,837 | - | - | - | (5,307,837) |
| Intergovernmental | 323,630 | - | - | - | (323,630) |
| Interest | 213,422 | - | - | - | (213,422) |
| Total Governmental Activities | 34,517,757 | 3,112,534 | 7,815,957 | 367,071 | (23,222,195) |
| Business-Type Activities: | | | | | |
| Water services | 1,020,222 | 1,381,467 | - | - | 361,245 |
| Sewer services | 1,130,409 | 1,276,132 | - | - | 145,723 |
| Total Business-Type Activities | 2,150,631 | 2,657,599 | - | - | 506,968 |
| Total | \$ <u>36,668,388</u> | \$ <u>5,770,133</u> | \$ <u>7,815,957</u> | \$ <u>367,071</u> | (22,715,227) |

(continued)

TOWN OF MILLIS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

(continued)

| | Governmental <u>Activities</u> | Business- Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|--|----------------------|
| Changes in Net Position: | | | |
| Net (expenses) revenue from previous page | \$ (23,222,195) | \$ 506,968 | \$ (22,715,227) |
| General Revenues, Transfers, and Contributions: | | | |
| Property taxes | 17,925,831 | - | 17,925,831 |
| Excises | 1,113,964 | - | 1,113,964 |
| Penalties, interest and other taxes | 181,525 | - | 181,525 |
| Grants and contributions not restricted to specific programs | 1,034,278 | - | 1,034,278 |
| Investment income | 19,357 | 1,143 | 20,500 |
| Miscellaneous | 303,081 | - | 303,081 |
| Transfers, net | 267,819 | (267,819) | - |
| Permanent fund contributions | 3,710 | - | 3,710 |
| Total general revenues, transfers, and contributions | <u>20,849,565</u> | <u>(266,676)</u> | <u>20,582,889</u> |
| Change in Net Position | (2,372,630) | 240,292 | (2,132,338) |
| Net Position: | | | |
| Beginning of year, as restated | <u>20,196,076</u> | <u>10,732,853</u> | <u>30,928,929</u> |
| End of year | <u>\$ 17,823,446</u> | <u>\$ 10,973,145</u> | <u>\$ 28,796,591</u> |

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

TOWN OF MILLIS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

| | <u>General</u> | <u>Police/Fire Renovations Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|--|---|
| ASSETS | | | | |
| Cash and short-term investments | \$ 3,668,911 | \$ 1,681,754 | \$ 2,965,005 | \$ 8,315,670 |
| Investments | 115,403 | - | - | 115,403 |
| Receivables: | | | | |
| Property taxes | 1,064,004 | - | 2,009 | 1,066,013 |
| Excises | 152,830 | - | - | 152,830 |
| Departmental and other | - | - | 188,680 | 188,680 |
| Intergovernmental | - | - | 323,364 | 323,364 |
| Betterments | - | - | 9,048 | 9,048 |
| TOTAL ASSETS | \$ 5,001,148 | \$ 1,681,754 | \$ 3,488,106 | \$ 10,171,008 |
| LIABILITIES | | | | |
| Warrants payable | \$ 118,377 | \$ 95,720 | \$ 31,107 | \$ 245,204 |
| Accrued liabilities | 539,370 | - | - | 539,370 |
| Notes payable | - | 2,500,000 | 677,240 | 3,177,240 |
| Other current liabilities | 1,648 | - | - | 1,648 |
| TOTAL LIABILITIES | 659,395 | 2,595,720 | 708,347 | 3,963,462 |
| DEFERRED INFLOWS OF RESOURCES | 1,130,645 | - | 523,102 | 1,653,747 |
| FUND BALANCES | | | | |
| Nonspendable | - | - | 178,168 | 178,168 |
| Restricted | 303,509 | - | 3,035,016 | 3,338,525 |
| Committed | 289,038 | - | - | 289,038 |
| Assigned | 671,566 | - | - | 671,566 |
| Unassigned | 1,946,995 | (913,966) | (956,527) | 76,502 |
| TOTAL FUND BALANCES | 3,211,108 | (913,966) | 2,256,657 | 4,553,799 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 5,001,148 | \$ 1,681,754 | \$ 3,488,106 | \$ 10,171,008 |

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, 2015

| | |
|---|-----------------------------|
| Total governmental fund balances | \$ 4,553,799 |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 39,970,629 |
| • Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 1,397,932 |
| • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (66,646) |
| • Long-term liabilities, net of related deferred outflows of resources, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Bonds and long term notes payable | (6,709,072) |
| Net OPEB obligation | (8,185,576) |
| Net pension liability, net of deferred outflow of resources | (12,523,706) |
| Landfill liability | (132,751) |
| Compensated absences | <u>(481,163)</u> |
| Net position of governmental activities | <u><u>\$ 17,823,446</u></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, 2015

| | <u>General</u> | <u>Police/Fire Renovations Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------|---|--|---|
| Revenues: | | | | |
| Property taxes | \$ 17,896,587 | \$ - | \$ 125,622 | \$ 18,022,209 |
| Excises | 1,102,872 | - | - | 1,102,872 |
| Penalties, interest and other taxes | 181,080 | - | 445 | 181,525 |
| Charges for services | 234,483 | - | 2,182,798 | 2,417,281 |
| Intergovernmental | 5,730,361 | - | 2,165,815 | 7,896,176 |
| Licenses and permits | 242,260 | - | - | 242,260 |
| Fines and forfeitures | 18,728 | - | - | 18,728 |
| Investment income | 17,178 | - | 2,180 | 19,358 |
| Contributions | - | - | 227,927 | 227,927 |
| Miscellaneous | 250,033 | - | 318,298 | 568,331 |
| Total Revenues | 25,673,582 | - | 5,023,085 | 30,696,667 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 2,038,692 | - | 735,033 | 2,773,725 |
| Public safety | 3,274,935 | 892,051 | 401,470 | 4,568,456 |
| Education | 13,908,352 | - | 2,916,047 | 16,824,399 |
| Public works | 1,241,262 | - | 556,104 | 1,797,366 |
| Health and human services | 252,293 | - | 29,310 | 281,603 |
| Culture and recreation | 383,534 | - | 435,354 | 818,888 |
| Employee benefits | 3,859,834 | - | - | 3,859,834 |
| Debt service | 925,698 | - | 61,167 | 986,865 |
| Intergovernmental | 323,630 | - | - | 323,630 |
| Total Expenditures | 26,208,230 | 892,051 | 5,134,485 | 32,234,766 |
| Excess (deficiency) of revenues over expenditures | (534,648) | (892,051) | (111,400) | (1,538,099) |
| Other Financing Sources (Uses): | | | | |
| Issuance of long-term debt | - | - | 779,334 | 779,334 |
| Transfers in | 674,709 | - | 67,650 | 742,359 |
| Transfers out | (134,503) | - | (340,037) | (474,540) |
| Total Other Financing Sources (Uses) | 540,206 | - | 506,947 | 1,047,153 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 5,558 | (892,051) | 395,547 | (490,946) |
| Fund Equity, at Beginning of Year, as reclassified | 3,205,550 | (21,915) | 1,861,110 | 5,044,745 |
| Fund Equity, at End of Year | \$ 3,211,108 | \$ (913,966) | \$ 2,256,657 | \$ 4,553,799 |

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, 2015

| | |
|--|------------------------------|
| NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ (490,946) |
| <ul style="list-style-type: none"> 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 | 1,902,837 |
| Depreciation | (1,949,730) |
| <ul style="list-style-type: none"> 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 (real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. | (430,635) |
| <ul style="list-style-type: none"> The issuance of long-term debt (bonds and notes) 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 | 1,020,665 |
| Bond and note issuances | (1,034,072) |
| <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. | 7,516 |
| <ul style="list-style-type: none"> 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 | (1,385,920) |
| Change in compensated absence liability | (92,993) |
| Change in net pension liability and related deferred outflows | (62,083) |
| Change in landfill liability | <u>142,731</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ <u>(2,372,630)</u> |

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, 2015

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget |
|---|----------------------------|-------------------------|---------------------------|--------------------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Positive (Negative)</u> |
| Revenues and Transfers In: | | | | |
| Property taxes | \$ 17,748,450 | \$ 17,748,450 | \$ 17,748,450 | \$ - |
| Excises | 911,493 | 911,493 | 1,102,872 | 191,379 |
| Penalties, interest and other taxes | 97,028 | 97,028 | 181,080 | 84,052 |
| Charges for services | 216,029 | 216,029 | 234,483 | 18,454 |
| Intergovernmental | 5,693,749 | 5,693,749 | 5,730,361 | 36,612 |
| Licenses and permits | 167,118 | 167,118 | 242,260 | 75,142 |
| Fines and forfeitures | 17,834 | 17,834 | 18,728 | 894 |
| Investment income | 18,000 | 18,000 | 14,252 | (3,748) |
| Miscellaneous | 214,911 | 214,911 | 242,751 | 27,840 |
| Transfers in | 658,375 | 935,375 | 935,375 | - |
| Total Revenues and Transfers In | 25,742,987 | 26,019,987 | 26,450,612 | 430,625 |
| Expenditures and Transfers Out: | | | | |
| General government | 1,945,435 | 1,955,021 | 1,930,890 | 24,131 |
| Public safety | 3,265,509 | 3,277,724 | 3,273,132 | 4,592 |
| Education | 13,941,350 | 13,941,350 | 13,915,235 | 26,115 |
| Public works | 1,036,443 | 1,315,263 | 1,295,444 | 19,819 |
| Health and human services | 266,104 | 266,802 | 250,355 | 16,447 |
| Culture and recreation | 406,205 | 406,205 | 384,069 | 22,136 |
| Employee benefits | 3,957,363 | 3,932,058 | 3,888,016 | 44,042 |
| Debt service | 1,050,159 | 1,052,262 | 1,052,262 | - |
| Intergovernmental | 320,596 | 320,596 | 323,630 | (3,034) |
| Transfers out | 109,000 | 109,000 | 109,000 | - |
| Total Expenditures and Transfers Out | 26,298,164 | 26,576,281 | 26,422,033 | 154,248 |
| Excess (deficiency) of revenues and transfers in over expenditures and transfers out | (555,177) | (556,294) | 28,579 | 584,873 |
| Other Financing Sources: | | | | |
| Use of free cash: | | | | |
| Non-recurring capital costs | 313,225 | 313,225 | - | (313,225) |
| Non-recurring transfer to stabilization fund | 50,000 | 50,000 | - | (50,000) |
| Non-recurring costs | 91,022 | 92,139 | - | (92,139) |
| Recurring costs | 31,430 | 31,430 | - | (31,430) |
| Use of assigned fund balance | 69,500 | 69,500 | - | (69,500) |
| Total Other Sources | 555,177 | 556,294 | - | (556,294) |
| Excess of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ 28,579 | \$ 28,579 |

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

TOWN OF MILLIS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|---------------------|----------------------|
| | Water Fund | Sewer Fund | Total |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | |
| Assets: | | | |
| Current: | | | |
| Cash and short-term investments | \$ 581,792 | \$ 1,770,368 | \$ 2,352,160 |
| User fees, net of allowance for uncollectibles | 499,671 | 572,944 | 1,072,615 |
| Betterment fees, net of allowance for uncollectibles | - | 563,222 | 563,222 |
| Total current assets | 1,081,463 | 2,906,534 | 3,987,997 |
| Noncurrent: | | | |
| Capital assets: | | | |
| Land and construction in progress | 1,839,978 | 50,645 | 1,890,623 |
| Other capital assets, net of accumulated depreciation | 5,315,412 | 5,488,845 | 10,804,257 |
| Total noncurrent assets | 7,155,390 | 5,539,490 | 12,694,880 |
| TOTAL ASSETS | 8,236,853 | 8,446,024 | 16,682,877 |
| DEFERRED OUTFLOWS OF RESOURCES | 19,470 | 13,744 | 33,214 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 8,256,323 | \$ 8,459,768 | \$ 16,716,091 |
| LIABILITIES AND NET POSITION | | | |
| Liabilities: | | | |
| Current: | | | |
| Warrants payable | \$ 11,816 | \$ 5,489 | \$ 17,305 |
| Accrued liabilities | 28,639 | 19,538 | 48,177 |
| Notes payable | - | 712,500 | 712,500 |
| Current portion of long-term liabilities: | | | |
| Notes payable | 277,933 | - | 277,933 |
| Bonds payable | 240,000 | 235,000 | 475,000 |
| Total current liabilities | 558,388 | 972,527 | 1,530,915 |
| Noncurrent: | | | |
| Bonds payable, net of current portion | 1,775,000 | 1,495,000 | 3,270,000 |
| Net OPEB obligation | 79,940 | 57,778 | 137,718 |
| Net pension liability | 471,494 | 332,819 | 804,313 |
| Total noncurrent liabilities | 2,326,434 | 1,885,597 | 4,212,031 |
| TOTAL LIABILITIES | 2,884,822 | 2,858,124 | 5,742,946 |
| Net Position: | | | |
| Net investment in capital assets | 5,203,087 | 3,907,938 | 9,111,025 |
| Unrestricted | 168,414 | 1,693,706 | 1,862,120 |
| TOTAL NET POSITION | 5,371,501 | 5,601,644 | 10,973,145 |
| TOTAL LIABILITIES AND NET POSITION | \$ 8,256,323 | \$ 8,459,768 | \$ 16,716,091 |

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, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|---------------------|----------------------|
| | Water Fund | Sewer Fund | Total |
| Operating Revenues: | | | |
| Charges for services | \$ 1,371,312 | \$ 1,266,534 | \$ 2,637,846 |
| Other | <u>10,155</u> | <u>9,598</u> | <u>19,753</u> |
| Total Operating Revenues | 1,381,467 | 1,276,132 | 2,657,599 |
| Operating Expenses: | | | |
| Operating expenses | 735,575 | 859,707 | 1,595,282 |
| Depreciation | <u>215,790</u> | <u>204,085</u> | <u>419,875</u> |
| Total Operating Expenses | <u>951,365</u> | <u>1,063,792</u> | <u>2,015,157</u> |
| Operating Income | 430,102 | 212,340 | 642,442 |
| Nonoperating Revenues (Expenses): | | | |
| Interest income | 702 | 441 | 1,143 |
| Interest expense | <u>(68,857)</u> | <u>(66,617)</u> | <u>(135,474)</u> |
| Total Nonoperating Revenues (Expenses), Net | <u>(68,155)</u> | <u>(66,176)</u> | <u>(134,331)</u> |
| Income Before Transfers | 361,947 | 146,164 | 508,111 |
| Transfers: | | | |
| Transfers in | 66,853 | - | 66,853 |
| Transfers out | <u>(168,273)</u> | <u>(166,399)</u> | <u>(334,672)</u> |
| Total Transfers | <u>(101,420)</u> | <u>(166,399)</u> | <u>(267,819)</u> |
| Change in Net Position | 260,527 | (20,235) | 240,292 |
| Net Position at Beginning of Year, as restated | <u>5,110,974</u> | <u>5,621,879</u> | <u>10,732,853</u> |
| Net Position at End of Year | <u>\$ 5,371,501</u> | <u>\$ 5,601,644</u> | <u>\$ 10,973,145</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, 2015

| | Business-Type Activities Enterprise Funds | | |
|--|--|----------------------------|----------------------------|
| | Water Fund | Sewer Fund | Total |
| <u>Cash Flows From Operating Activities:</u> | | | |
| Receipts from customers and users | \$ 1,184,335 | \$ 1,120,713 | \$ 2,305,048 |
| Payments to vendors and employees | <u>(800,619)</u> | <u>(859,886)</u> | <u>(1,660,505)</u> |
| Net Cash Provided By Operating Activities | 383,716 | 260,827 | 644,543 |
| <u>Cash Flows From Noncapital Financing Activities:</u> | | | |
| Transfer in | 66,853 | - | 66,853 |
| Transfers out | <u>(168,273)</u> | <u>(166,399)</u> | <u>(334,672)</u> |
| Net Cash (Used for) Noncapital Financing Activities | (101,420) | (166,399) | (267,819) |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | | |
| Acquisition and construction of capital assets | (28,849) | (50,646) | (79,495) |
| Principal payments on bonds and notes | (287,801) | (235,000) | (522,801) |
| Proceeds from notes | - | 712,500 | 712,500 |
| Interest expense | <u>(72,279)</u> | <u>(67,807)</u> | <u>(140,086)</u> |
| Net Cash (Used For) Capital and Related Financing Activities | (388,929) | 359,047 | (29,882) |
| <u>Cash Flows From Investing Activities:</u> | | | |
| Investment income | <u>703</u> | <u>441</u> | <u>1,144</u> |
| Net Cash Provided By Investing Activities | <u>703</u> | <u>441</u> | <u>1,144</u> |
| Net Change in Cash and Short-Term Investments | (105,930) | 453,916 | 347,986 |
| Cash and Short-Term Investments, Beginning of Year | <u>687,722</u> | <u>1,316,452</u> | <u>2,004,174</u> |
| Cash and Short-Term Investments, End of Year | <u><u>\$ 581,792</u></u> | <u><u>\$ 1,770,368</u></u> | <u><u>\$ 2,352,160</u></u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u> | | | |
| Operating income | \$ 430,102 | \$ 212,340 | \$ 642,442 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation | 215,790 | 204,085 | 419,875 |
| Changes in assets and liabilities: | | | |
| User fees | (197,130) | (155,416) | (352,546) |
| Warrants and accounts payable | (62,658) | 3,283 | (59,375) |
| Compensated absence, net of current portion | (18,932) | (13,581) | (32,513) |
| Other post employment benefits | 14,303 | 8,535 | 22,838 |
| Net pension liability | <u>2,241</u> | <u>1,581</u> | <u>3,822</u> |
| Net Cash Provided By Operating Activities | <u><u>\$ 383,716</u></u> | <u><u>\$ 260,827</u></u> | <u><u>\$ 644,543</u></u> |

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

TOWN OF MILLIS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

| | Private Purpose Trust Funds | Other Post Employment Benefit Fund | Agency Funds |
|--|--------------------------------------|---|--------------------|
| <u>ASSETS</u> | | | |
| Cash and short-term investments | \$ <u>128,715</u> | \$ <u>101,073</u> | \$ <u>91,685</u> |
| Total Assets | 128,715 | 101,073 | 91,685 |
| <u>LIABILITIES AND NET POSITION</u> | | | |
| Accounts payable | - | - | 1,389 |
| Other liabilities | <u>-</u> | <u>-</u> | <u>90,296</u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>91,685</u> |
| <u>NET POSITION</u> | | | |
| Total net position held in trust | \$ <u><u>128,715</u></u> | \$ <u><u>101,073</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, 2015

| | Private Purpose <u>Trust Funds</u> | Other Post Employment Benefit <u>Fund</u> |
|-------------------------|--|--|
| Additions: | | |
| Investment Income | \$ 664 | \$ 252 |
| Contributions | <u>15,468</u> | <u>-</u> |
| Total additions | 16,132 | 252 |
| Deductions: | | |
| Education | <u>24,313</u> | <u>-</u> |
| Total deductions | <u>24,313</u> | <u>-</u> |
| Net increase (decrease) | (8,181) | 252 |
| Net position: | | |
| Beginning of year | <u>136,896</u> | <u>100,821</u> |
| End of year | <u>\$ 128,715</u> | <u>\$ 101,073</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 2015, 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 governmental 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 *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 2015 tax levy reflected an excess capacity of \$1,475.

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 general fund results of operations are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

| <u>General Fund</u> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP Basis) | \$ 25,673,582 | \$ 26,208,230 |
| Other financing sources/uses (GAAP Basis) | <u>674,709</u> | <u>134,503</u> |
| Subtotal (GAAP Basis) | 26,348,291 | 26,342,733 |
| Adjust tax revenue to accrual basis | (148,137) | - |
| To reverse expenditures of prior year appropriation carryforwards | - | (633,392) |
| To book current year appropriation carryforwards | - | 556,631 |
| To reverse nonbudgeted activity | <u>250,458</u> | <u>156,061</u> |
| Budgetary Basis | <u>\$ 26,450,612</u> | <u>\$ 26,422,033</u> |

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

| | |
|---|-----------------------|
| <u>Major Fund:</u> | |
| New Police/Fire Renovation | \$ (913,966) * |
| <u>Nonmajor Funds:</u> | |
| <u>Special Revenue Funds</u> | |
| Chapter 90 Grant | (206,908) |
| WRRRP Grant | (41,318) |
| Off-Duty Detail | (28,377) |
| 911 Support Grant | (22,381) |
| e-911 Training Grant | (9,380) |
| 911 Train/EMD Reg Grant | (4,409) |
| MEMA Grant | (2,875) |
| 911 Grant | (2,824) |
| 911 Training/EMD Compliance Grant | (2,083) |
| <u>Capital Project Funds:</u> | |
| Veterans Memorial Building Masonry | (403,767) * |
| Town Field Improvements | (145,000) * |
| Veterans Memorial Building Boiler Replacement | <u>(87,205) *</u> |
| Subtotal nonmajor funds | <u>(956,527)</u> |
| Grand Total | <u>\$ (1,870,493)</u> |

* Bond anticipation note issued before year-end cover these deficits

The deficits in these funds will be eliminated through future intergovernmental 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, 2015, none of the Town's bank balance of \$11,168,013 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).

The Town's investment in certificates of deposit of \$115,403 as of year-end is exempt from this rating disclosure.

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:

| <u>Investment Issuer</u> | <u>Amount</u> |
|--------------------------|-------------------|
| Middlesex Savings Bank | \$ 87,571 |
| Century Bank | <u>27,832</u> |
| Total | <u>\$ 115,403</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 is, 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. The Town does not invest in debt related securities. The certificates of deposit are exempt from this maturity disclosure.

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, 2015 consist of the following:

| | | |
|--------------------------------------|---------------|-------------------|
| Real Estate | | |
| 2015 | \$ 354,082 | |
| 2014 | 121,901 | |
| 2013 | 9,789 | |
| 2012 | 324 | |
| 2011 & prior | <u>5,027</u> | |
| | | 491,123 |
| Personal Property | | |
| 2015 | 6,463 | |
| 2014 | 9,969 | |
| 2013 | 9,079 | |
| 2012 | 5,467 | |
| 2011 & prior | <u>32,264</u> | |
| | | 63,242 |
| Tax Liens and foreclosures | | 509,639 |
| CPA | | <u>2,009</u> |
| Total fund basis receivable | | 1,066,013 |
| Less allowance for doubtful accounts | | <u>(171,345)</u> |
| Total government wide receivable | | <u>\$ 894,668</u> |

6. Allowance for Doubtful Accounts

The property taxes receivables reported in the accompanying entity-wide governmental financial statements reflect estimated allowances for doubtful accounts as disclosed in Note 5. Excise tax receivables are net of \$84,470 allowance for doubtful accounts. Business-type utilities receivable are net of \$33,387 allowance for doubtful accounts.

7. Intergovernmental Receivables

This balance represents various reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

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, 2015 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 25,469 | \$ 152 | \$ - | \$ 25,621 |
| Machinery, equipment, and furnishings | 6,690 | 251 | - | 6,941 |
| Infrastructure | 25,463 | - | - | 25,463 |
| Total capital assets, being depreciated | 57,622 | 403 | - | 58,025 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (8,835) | (706) | - | (9,541) |
| Machinery, equipment, and furnishings | (4,113) | (568) | - | (4,681) |
| Infrastructure | (8,081) | (676) | - | (8,757) |
| Total accumulated depreciation | (21,029) | (1,950) | - | (22,979) |
| Total capital assets, being depreciated, net | 36,593 | (1,547) | - | 35,046 |
| Capital assets, not being depreciated: | | | | |
| Land | 3,402 | 5 | - | 3,407 |
| Construction in progress | 23 | 1,495 | - | 1,518 |
| Total capital assets, not being depreciated | 3,425 | 1,500 | - | 4,925 |
| Governmental activities capital assets, net | \$ 40,018 | \$ (47) | \$ - | \$ 39,971 |

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 2,474 | \$ - | \$ - | \$ 2,474 |
| Machinery, equipment, and furnishings | 1,693 | - | - | 1,693 |
| Infrastructure | <u>13,365</u> | <u>-</u> | <u>-</u> | <u>13,365</u> |
| Total capital assets, being depreciated | 17,532 | - | - | 17,532 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,543) | (43) | - | (1,586) |
| Machinery, equipment, and furnishings | (1,177) | (54) | - | (1,231) |
| Infrastructure | <u>(3,588)</u> | <u>(323)</u> | <u>-</u> | <u>(3,911)</u> |
| Total accumulated depreciation | <u>(6,308)</u> | <u>(420)</u> | <u>-</u> | <u>(6,728)</u> |
| Total capital assets, being depreciated, net | 11,224 | (420) | - | 10,804 |
| Capital assets, not being depreciated: | | | | |
| Land | 1,376 | - | - | 1,376 |
| Construction in progress | <u>435</u> | <u>80</u> | <u>-</u> | <u>515</u> |
| Total capital assets, not being depreciated | <u>1,811</u> | <u>80</u> | <u>-</u> | <u>1,891</u> |
| Business-type activities capital assets, net | <u>\$ 13,035</u> | <u>\$ (340)</u> | <u>\$ -</u> | <u>\$ 12,695</u> |

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

| | |
|---|-----------------|
| Governmental Activities: | |
| General government | \$ 167 |
| Public safety | 288 |
| Education | 537 |
| Public works | 774 |
| Health and human services | 16 |
| Culture and recreation | <u>168</u> |
| Total depreciation expense - governmental activities | <u>\$ 1,950</u> |
| Business-Type Activities: | |
| Water | \$ 216 |
| Sewer | <u>204</u> |
| Total depreciation expense - business-type activities | <u>\$ 420</u> |

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources at June 30, 2015 represent net differences between projected and actual investment earnings related to the retirement system.

11. Warrants Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015 as permitted by law.

12. Notes Payable

The Town had the following notes outstanding at June 30, 2015:

| | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Balance at 6/30/15</u> |
|------------------------------------|--------------------------|--------------------------|-----------------------------|-------------------------------|
| Governmental: | | | | |
| Police and Fire Station | 0.73% | 06/26/15 | 08/01/16 | \$ 2,500,000 |
| VMB Masonary | 0.55% | 07/18/14 | 07/17/15 | 425,000 |
| Field Improvement | 0.55% | 09/15/14 | 09/15/15 | 150,000 |
| VMB Boiler Replacement | 0.55% | 10/27/14 | 10/27/15 | <u>102,240</u> |
| Subtotal | | | | 3,177,240 |
| Enterprise: | | | | |
| Sewer Extension Project | 0.55% | 09/15/14 | 09/15/15 | 92,000 |
| Water Street Sewer Pump Station | 0.60% | 06/01/15 | 06/01/16 | <u>620,500</u> |
| Subtotal | | | | <u>712,500</u> |
| Total | | | | <u>\$ 3,889,740</u> |

The following summarizes activity in notes payable during fiscal year 2015:

| | <u>Balance Beginning of Year</u> | <u>New Issues</u> | <u>Maturities</u> | <u>Balance End of Year</u> |
|------------------------------------|--|-----------------------|-----------------------|------------------------------------|
| Governmental: | | | | |
| Police and Fire Station | \$ 2,500,000 | \$ 2,500,000 | \$ (2,500,000) | \$ 2,500,000 |
| Fire Truck | 835,000 | - | (835,000) | - |
| Main Street Culvert | 11,984 | - | (11,984) | - |
| VMB Masonary | - | 425,000 | - | 425,000 |
| Field Improvement | - | 150,000 | - | 150,000 |
| VMB Boiler Replacement | - | 102,240 | - | <u>102,240</u> |
| Subtotal | 3,346,984 | 3,177,240 | (3,346,984) | 3,177,240 |
| Enterprise: | | | | |
| Sewer Extension Project | - | 92,000 | - | 92,000 |
| Water Street Sewer Pump Station | - | 620,500 | - | <u>620,500</u> |
| Subtotal | - | 712,500 | - | <u>712,500</u> |
| Total | <u>\$ 3,346,984</u> | <u>\$ 3,889,740</u> | <u>\$ (3,346,984)</u> | <u>\$ 3,889,740</u> |

13. Long-Term Debt

A. General Obligation Bonds

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

| | Serial Maturities <u>Through</u> | Interest Rate(s) % | Amount Outstanding as of <u>6/30/15</u> |
|---------------------------------|--|-----------------------|--|
| <u>Governmental Activities:</u> | | | |
| Community Center and Town Hall | 07/01/15 | 2.80% | \$ 110,000 |
| Ambulance bay | 07/01/15 | 2.80% | 5,000 |
| Landfill capping | 07/01/17 | 2.80% | 130,000 |
| Land acquisition | 10/15/18 | 2.80% | 175,000 |
| DPW garage | 08/15/18 | 3.97% | 80,000 |
| Public way - Acorn St | 10/01/15 | 3.99% | 55,000 |
| Surface drain - Acorn St | 10/01/25 | 3.91% | 280,000 |
| Surface drain - Main St | 02/15/23 | 3.30% | 95,000 |
| Public way - Klifford | 02/15/26 | 3.31% | 245,000 |
| Library construction | 02/15/33 | 3.09% | <u>4,500,000</u> |
| Total Governmental Activities: | | | <u>\$ 5,675,000</u> |

| | Serial Maturities <u>Through</u> | Interest Rate(s) % | Amount Outstanding as of <u>6/30/15</u> |
|----------------------------------|--|-----------------------|--|
| <u>Business-Type Activities:</u> | | | |
| Well field development - Paine | 10/15/20 | 2.80% | \$ 415,000 |
| Water well 5 and 6 | 08/15/23 | 4.28% | 121,500 |
| Water well - Paine | 08/15/23 | 4.27% | 733,500 |
| Water mains - Orchard St | 10/01/16 | 3.93% | 20,000 |
| Water mains - Irving St | 02/15/33 | 3.30% | 113,000 |
| Water mains - Forest Rd | 02/15/33 | 3.30% | 612,000 |
| Sewer improvements - Flintlock | 07/01/17 | 2.80% | 160,000 |
| Sewer improvements - area A&B | 10/15/20 | 2.80% | 425,000 |
| Sewer improvements - area E | 10/01/26 | 3.91% | 1,025,000 |
| Sewer improvements - Franklin | 02/15/23 | 3.30% | <u>120,000</u> |
| Total Business-Type Activities: | | | <u>\$ 3,745,000</u> |

B. Long Term Notes Payable

The Town had the following long term notes outstanding at June 30, 2015:

| | <u>Interest Rate</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Balance at 6/30/15</u> |
|---------------------------|--------------------------|--------------------------|-----------------------------|-------------------------------|
| Governmental: | | | | |
| Ambulance | 0.55% | 07/11/14 | 07/10/15 | \$ 60,000 |
| Causeway St. Culvert | 0.65% | 12/12/14 | 12/11/15 | 60,000 |
| Transfer Station | 0.75% | 08/21/14 | 08/21/15 | 14,738 |
| Dewey Land Purchase | 0.55% | 07/18/14 | 07/17/15 | 120,000 |
| Fire Truck | 0.55% | 07/17/14 | 07/17/15 | <u>779,334</u> |
| Subtotal | | | | 1,034,072 |
| Enterprise: | | | | |
| Water Mains | 0.75% | 08/21/14 | 08/21/15 | 9,233 |
| Water System Improvements | 0.65% | 10/24/14 | 10/23/15 | 18,500 |
| Water System Improvements | 0.60% | 01/15/15 | 01/15/16 | <u>250,200</u> |
| Subtotal | | | | <u>277,933</u> |
| Total | | | | <u>\$ 1,312,005</u> |

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|---------------------|---------------------|---------------------|
| 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 | 310,000 | 125,375 | 435,375 |
| 2021 - 2025 | 1,505,000 | 443,275 | 1,948,275 |
| 2026 - 2030 | 1,295,000 | 202,225 | 1,497,225 |
| 2031 - 2033 | <u>750,000</u> | <u>41,250</u> | <u>791,250</u> |
| Total | <u>\$ 5,675,000</u> | <u>\$ 1,435,133</u> | <u>\$ 7,110,133</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, 2015.

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|---------------------|
| 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 | 390,000 | 71,356 | 461,356 |
| 2021 - 2025 | 1,140,000 | 175,645 | 1,315,645 |
| 2026 - 2030 | 340,000 | 32,245 | 372,245 |
| 2031 - 2033 | <u>90,000</u> | <u>4,950</u> | <u>94,950</u> |
| Total | <u>\$ 3,745,000</u> | <u>\$ 723,204</u> | <u>\$ 4,468,204</u> |

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

| | Total Balance 7/1/14 | Additions | Reductions | Total Balance 6/30/15 | Less Current Portion | Equals Long-Term Portion 6/30/15 |
|---------------------------------|----------------------------|-----------------|-------------------|-----------------------------|----------------------------|---|
| <u>Governmental Activities</u> | | | | | | |
| Note payable | \$ 411 | \$ 1,034 | \$ (411) | \$ 1,034 | \$ (1,034) | \$ - |
| Bonds payable | 6,285 | - | (610) | 5,675 | (605) | 5,070 |
| Other: | | | | | | |
| Accrued employee benefits | 389 | 93 | - | 482 | (24) | 458 |
| Landfill closure | 275 | - | (143) | 132 | (10) | 122 |
| Net OPEB obligation | 6,800 | 1,386 | - | 8,186 | - | 8,186 |
| Net pension liability | 12,462 | 601 | - | 13,063 | - | 13,063 |
| Totals | <u>\$ 26,622</u> | <u>\$ 3,114</u> | <u>\$ (1,164)</u> | <u>\$ 28,572</u> | <u>\$ (1,673)</u> | <u>\$ 26,899</u> |
| <u>Business-Type Activities</u> | | | | | | |
| Note payable | \$ 48 | \$ 278 | \$ (48) | \$ 278 | \$ (278) | \$ - |
| Bonds payable | 4,220 | - | (475) | 3,745 | (475) | 3,270 |
| Other: | | | | | | |
| Accrued employee benefits | 33 | - | (33) | - | - | - |
| Net OPEB obligation | 115 | 23 | - | 138 | - | 138 |
| Net pension liability | 767 | 37 | - | 804 | - | 804 |
| Totals | <u>\$ 5,183</u> | <u>\$ 338</u> | <u>\$ (556)</u> | <u>\$ 4,965</u> | <u>\$ (753)</u> | <u>\$ 4,212</u> |

14. Landfill Closure and Postclosure Care Costs

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

The Town reported \$132,751 as landfill closure and postclosure care liability at June 30, 2015. This amount is based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2015. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

15. 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. Deferred inflows of resources at June 30, 2015 represent unavailable revenues.

16. **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.

17. **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, 2015:

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, 2015:

| | General Fund | New Police/ Fire Renovation Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------|-----------------|--|-----------------------------------|--------------------------------|
| Nonspendable | | | | |
| Nonexpendable permanent funds | \$ - | \$ - | \$ 178,168 | \$ 178,168 |
| Total Nonspendable | - | - | 178,168 | 178,168 |
| Restricted | | | | |
| Reserved for debt service | 303,509 | - | - | 303,509 |
| Bonded projects | - | - | 418,833 | 418,833 |
| Special revenue funds: | | | | |
| School choice tuition | - | - | 578,622 | 578,622 |
| Ambulance | - | - | 311,757 | 311,757 |
| Community preservation | - | - | 457,160 | 457,160 |
| Circuit breaker | - | - | 127,315 | 127,315 |
| Extended day care | - | - | 126,388 | 126,388 |
| Cellular antennae lease | - | - | 108,497 | 108,497 |
| Other | - | - | 867,456 | 867,456 |
| Expendable permanent funds | - | - | 38,988 | 38,988 |
| Total Restricted | 303,509 | - | 3,035,016 | 3,338,525 |
| Committed | | | | |
| Reserved for articles | 289,038 | - | - | 289,038 |
| Total Committed | 289,038 | - | - | 289,038 |
| Assigned | | | | |
| Encumbrances | 267,593 | - | - | 267,593 |
| For next year's expenditures | 403,973 | - | - | 403,973 |
| Total Assigned | 671,566 | - | - | 671,566 |
| Unassigned ⁽¹⁾ | 1,946,995 | (913,966) | (956,527) | 76,502 |
| Total Unassigned | 1,946,995 | (913,966) | (956,527) | 76,502 |
| Total Fund Balance | \$ 3,211,108 | \$ (913,966) | \$ 2,256,657 | \$ 4,553,799 |

⁽¹⁾ Includes General Stabilization fund balance of \$929,322

18. 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 2015:

| <u>Governmental Funds:</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------------|---------------------|----------------------|
| General Fund | \$ 674,709 | \$ 134,503 |
| Nonmajor Funds: | | |
| Special Revenue Funds: | | |
| Ambulance | - | 265,000 |
| Cemetery sale of lots | - | 4,500 |
| Daniels St repairs | - | 36,043 |
| Cell tower | - | 34,150 |
| Expendable trust funds | - | 344 |
| Capital Project Funds: | | |
| Fire truck | 55,666 | - |
| Main St culvert repairs | 11,984 | - |
| Subtotal Nonmajor Funds | 67,650 | 340,037 |
| <u>Business-Type Funds:</u> | | |
| Water Fund | 66,853 | 168,273 |
| Sewer Fund | - | 166,399 |
| Subtotal Business-Type Funds | 66,853 | 334,672 |
| Grand Total | <u>\$ 809,212</u> | <u>\$ 809,212</u> |

The transfers in to the General Fund from the Water and Sewer funds of \$318,338 out of \$334,672 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.

19. Subsequent Events

Subsequent to June 30, 2015, the Town paid off and rolled forward many of the bond anticipating notes included in Note 12 and 13. 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> |
|---------------------------|---------------|-------------|----------------------|-------------------------|
| Police and Fire Station | \$ 7,461,000 | 2.00% | 8/28/2015 | 8/1/2016 |
| Water Storage Tank | \$ 638,000 | 0.75% | 10/5/2015 | 8/1/2016 |
| Water System Improvements | \$ 230,000 | 0.75% | 12/7/2015 | 8/1/2016 |
| Library | \$ 67,717 | 0.75% | 12/7/2015 | 8/1/2016 |
| DPW Vehicle | \$ 188,000 | 0.75% | 12/7/2015 | 8/1/2016 |
| School Feasibility Study | \$ 600,000 | 0.75% | 3/1/2016 | 3/1/2017 |

20. **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.

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.

21. **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 and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2014, the actuarial valuation date, approximately 156 retirees and 307 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 2015 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, 2015, 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, 2014.

| | |
|---|----------------------------|
| Annual Required Contribution (ARC) | \$ 1,976,639 |
| Interest on net OPEB obligation | 276,583 |
| Amortization on net OPEB obligation | (384,488) |
| Adjustment to ARC | <u>231,486</u> |
| Annual OPEB cost | 2,100,220 |
| Contributions made | <u>(691,462)</u> |
| Increase in net OPEB obligation | 1,408,758 |
| Net OPEB obligation - beginning of year | <u>6,914,536</u> |
| Net OPEB obligation - end of year | <u><u>\$ 8,323,294</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> |
|--------------------------|-----------------------------|--|--------------------------------|
| 2015 | \$ 2,100,220 | 32.9% | \$ 8,323,294 |
| 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 |

The Town's net OPEB obligation as of June 30, 2015 is recorded as a non-current liability.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation was as follows:

| | |
|---|----------------------|
| Actuarial accrued liability (AAL) | \$ 20,281,374 |
| Actuarial value of plan assets | <u>(100,300)</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 20,181,074</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0.49%</u> |
| Covered payroll (active plan members) | not available |
| UAAL as a percentage of covered payroll | not available |

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, 2014 actuarial valuation the projected unit credit actuarial cost method was used. The actuarial value of assets is equal to the market value of Plan's assets as of the valuation date. The actuarial assumptions included a 4% investment rate of return and an annual healthcare cost trend rate of 5%. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

22. Retirement System

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the Town (except teachers under contract employed by the School Department) are members of the Norfolk County Retirement System (the System), a cost sharing, multiple-employer, defined benefit, public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at Norfolk County Retirement System at 480 Neponset Street, Building 15, Canton, MA 02021.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five year average for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Members become vested after 10 years of creditable service. A retirement allowance may be received attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 50 for groups 1 and 2, respectively. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended December 31, 2014 was \$1,293,722, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$13,867,460 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the Town's proportion was 2.673889 percent.

For the year ended June 30, 2015, the Town recognized pension expense of \$1,413,673. In addition, the Town reported deferred outflows of resources for the net differences between projected and actual investment earnings of \$572,656.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|-------|-------------------|
| 2016 | \$ 143,164 |
| 2017 | 143,164 |
| 2018 | 143,164 |
| 2019 | <u>143,163</u> |
| Total | <u>\$ 572,655</u> |

Actuarial assumptions: The total pension liability in the System actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|-----------------------------------|
| Valuation Date | 1/1/14 rolled forward to 12/31/14 |
| Actuarial cost method | Entry Age |
| Actuarial assumptions: | |
| Investment rate of return | 8.25% |
| Projected salary increases | 4.00% |
| Inflation rate | 4.50% |
| Post-retirement cost-of-living adjustment | 3% of first \$15,000 |

Mortality rates were based on the RP-2000 Mortality Table adjusted with Scale AA.

The actuarial assumptions used in the System valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|----------------------|--|---|
| Domestic equity | 32.0% | 7.7% |
| International equity | 17.5% | 6.4% |
| Fixed income | 19.0% | 1.9% |
| Real estate | 9.0% | 5.2% |
| Private equity | 8.5% | 11.9% |
| Hedge funds | 9.0% | 5.5% |
| Real assets | 5.0% | 5.5% |
| Total | <u>100.00%</u> | |

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the

discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate: The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.25%) or 1 percentage-point higher (9.25%) than the current rate:

| <u>Year Ended</u> | <u>1% Decrease (7.25%)</u> | <u>Current Discount Rate (8.25%)</u> | <u>1% Increase (9.25%)</u> |
|-------------------|------------------------------------|--|--------------------------------|
| December 31, 2014 | \$ 17,403,055 | \$ 13,867,460 | \$ 10,828,826 |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

23. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a

member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

| <u>Hire Date</u> | <u>% of Compensation</u> |
|---------------------|---|
| Prior to 1975 | 5% of regular compensation |
| 1975 - 1983 | 7% of regular compensation |
| 1984 to 6/30/1996 | 8% of regular compensation |
| 7/1/1996 to present | 9% of regular compensation |
| 7/1/2001 to present | 11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000) |
| 1979 to present | An additional 2% of regular compensation in excess of \$30,000 |

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | |
|--------------------------|------------------------------|---|-------------|
| | | <u>2014</u> | <u>2013</u> |
| Global equity | 43.0% | 7.2% | 7.70% |
| Core fixed income | 13.0% | 2.5% | 2.00% |
| Hedge funds | 10.0% | 5.5% | 4.75% |
| Private equity | 10.0% | 8.8% | 9.00% |
| Real estate | 10.0% | 6.3% | 6.00% |
| Value added fixed income | 10.0% | 6.3% | 6.30% |
| Timber/natural resources | 4.0% | 5.0% | 5.00% |
| Total | <u>100.0%</u> | | |

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

| <u>Fiscal Year Ended</u> | <u>1% Decrease to 7%</u> | <u>Current Discount Rate 8%</u> | <u>1% Increase to 9%</u> |
|------------------------------|------------------------------|-------------------------------------|------------------------------|
| June 30, 2013 | \$ 21,426,000 | \$ 17,233,698 | \$ 13,672,000 |
| June 30, 2014 | \$ 20,247,000 | \$ 15,896,354 | \$ 12,200,000 |

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. Town Proportions

In fiscal year 2014 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the Town was \$23,192,239 and \$1,611,276 respectively, based on a proportionate share of 0.145897%. As required by GASB 68, the Town has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

24. **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 2015 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 | \$ 1,366 |
| August | 1,773 |
| September | 1,197 |
| October | 1,140 |
| November | 1,125 |
| December | 687 |
| January | 903 |
| February | 1,161 |
| March | 945 |
| April | 1,359 |
| May | 1,938 |
| June | <u>1,268</u> |
| Total | \$ <u><u>14,862</u></u> |

25. **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.

26. Beginning Net Position Restatement for Change in Accounting Principle and Beginning Fund Balance Reclassification

The Town's beginning (July 1, 2014) net position has been restated from the previous fiscal year to conform with GASB Statement 68 as follows:

| | <u>Entity-wide Basis</u> | | <u>Fund Basis</u> | |
|--|--------------------------------|---------------------------------|--------------------------|---------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Proprietary Funds</u> | |
| | | | <u>Water</u> | <u>Sewer</u> |
| As previously reported for June 30, 2014 | \$ 32,657,699 | \$ 11,500,130 | \$ 5,560,757 | \$ 5,939,373 |
| GASB 68 implementation for net pension liability | <u>(12,461,623)</u> | <u>(767,277)</u> | <u>(449,783)</u> | <u>(317,494)</u> |
| As restated for July 1, 2014 | <u>\$ 20,196,076</u> | <u>\$ 10,732,853</u> | <u>\$ 5,110,974</u> | <u>\$ 5,621,879</u> |

The Town's major governmental funds for fiscal year 2015, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

| | <u>Fund Equity 6/30/14 (as previously reported)</u> | <u>Reclassification</u> | <u>Fund Equity 7/1/14 (as restated)</u> |
|----------------|---|-------------------------|---|
| Fire Truck | \$ (835,000) | \$ 835,000 | \$ - |
| Nonmajor funds | <u>2,696,110</u> | <u>(835,000)</u> | <u>1,861,110</u> |
| Total | <u>\$ 1,861,110</u> | <u>\$ -</u> | <u>\$ 1,861,110</u> |

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

June 30, 2015

(Unaudited)

Other Post-Employment Benefits

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percentage of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|--|
| 07/01/14 | \$ 100,300 | \$ 20,281,374 | \$ 20,181,074 | 0.5% | not available | not available |
| 07/01/12 | \$ - | \$ 19,285,760 | \$ 19,285,760 | 0.0% | not available | not available |
| 07/01/10 | \$ - | \$ 19,593,487 | \$ 19,593,487 | 0.0% | not available | not available |
| 07/01/08 | \$ - | \$ 18,166,278 | \$ 18,166,278 | 0.0% | \$ 11,824,120 | 153.6% |

See Independent Auditors' Report.

CITY OF MILLIS, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

| | |
|--|----------------------|
| <u>Norfolk County Retirement System:</u> | <u>6/30/15</u> |
| Proportion of the net pension liability for the most recent measurement date | 2.673889% |
| Proportionate share of the net pension liability for the most recent measurement date | \$ 13,867,460 |
| Covered-employee payroll for the most recent measurement date (in thousands) | \$ 6,536,914 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 212.14% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.12% |
| <u>Massachusetts Teachers Retirement System:</u> | <u>6/30/15</u> |
| Proportion of the net pension liability for the most recent measurement date | 0.145897% |
| The City's proportionate share of the net pension liability for the most recent measurement date | \$ - |
| Commonwealth of Massachusetts' proportionate share of the net pension liability that is associated with the City | <u>23,192,239</u> |
| Total net pension liability associated with the City | <u>\$ 23,192,239</u> |
| Covered-employee payroll for the most recent measurement date | not available |
| Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | not available |
| Plan fiduciary net position as a percentage of the total pension liability | 61.64% |

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

CITY OF MILLIS, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014
(Unaudited)**

| | |
|--|--------------------|
| <u>Norfolk County Retirement System:</u> | <u>6/30/15</u> |
| Contractually required contribution for the year | \$ 1,293,722 |
| Contributions in relation to the contractually required contribution | <u>1,293,722</u> |
| Contribution deficiency (excess) | \$ <u><u>-</u></u> |
| Covered-employee payroll for the year | \$ 6,536,914 |
| Contributions as a percentage of covered-employee payroll | 19.79% |

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.