

**TOWN OF MILLIS, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2016**

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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, 2016, 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.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millis, Massachusetts, as of June 30, 2016, 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 OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Pension 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 February 3, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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*

February 2, 2017

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

As management of the Town of Millis, Massachusetts (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016.

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

Both of the government-wide financial statements distinguish functions 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, education, public works, health and human services, culture and recreation, and employee benefits. 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 \$27,329,041 (i.e., net position), a change of \$(1,467,550) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$(9,326), a change of \$(4,563,125) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,413,220, a change of \$466,225 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$8,340,000, a change of \$(1,080,000) in comparison to the prior year.

## C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

<u>NET POSITION</u>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 13,750	\$ 9,915	\$ 3,505	\$ 3,988	\$ 17,255	\$ 13,903
Capital assets	<u>44,173</u>	<u>39,971</u>	<u>14,055</u>	<u>12,695</u>	<u>58,228</u>	<u>52,666</u>
Total assets	57,923	49,886	17,560	16,683	75,483	66,569
Deferred outflows	<u>2,011</u>	<u>539</u>	<u>124</u>	<u>33</u>	<u>2,135</u>	<u>572</u>
Total assets and deferred outflows	<u>\$ 59,934</u>	<u>\$ 50,425</u>	<u>\$ 17,684</u>	<u>\$ 16,716</u>	<u>\$ 77,618</u>	<u>\$ 67,141</u>
Long-term liabilities	\$ 29,726	\$ 28,572	\$ 4,481	\$ 4,965	\$ 34,207	\$ 33,537
Other liabilities	<u>12,508</u>	<u>4,030</u>	<u>1,793</u>	<u>778</u>	<u>14,301</u>	<u>4,808</u>
Total liabilities	42,234	32,602	6,274	5,743	48,508	38,345
Deferred inflows	1,678	-	103	-	1,781	-
Net position:						
Net investment in capital assets	31,136	33,535	9,046	9,111	40,182	42,646
Restricted	3,053	2,794	-	-	3,053	2,794
Unrestricted	<u>(18,167)</u>	<u>(18,506)</u>	<u>2,261</u>	<u>1,862</u>	<u>(15,906)</u>	<u>(16,644)</u>
Total net position	<u>16,022</u>	<u>17,823</u>	<u>11,307</u>	<u>10,973</u>	<u>27,329</u>	<u>28,796</u>
Total liabilities, deferred inflows, and net position	<u>\$ 59,934</u>	<u>\$ 50,425</u>	<u>\$ 17,684</u>	<u>\$ 16,716</u>	<u>\$ 77,618</u>	<u>\$ 67,141</u>



# CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,747	\$ 3,113	\$ 2,644	\$ 2,658	\$ 5,391	\$ 5,771
Operating grants and contributions	9,209	7,816	-	-	9,209	7,816
Capital grants and contributions	419	367	-	-	419	367
General revenues:						
Property taxes	18,686	17,926	-	-	18,686	17,926
Excises	1,188	1,114	-	-	1,188	1,114
Penalties and interest on taxes	185	181	-	-	185	181
Grants and contributions not restricted to specific programs	1,069	1,034	-	-	1,069	1,034
Investment income	24	19	2	1	26	20
Other	809	303	-	-	809	303
Total revenues	<u>34,336</u>	<u>31,873</u>	<u>2,646</u>	<u>2,659</u>	<u>36,982</u>	<u>34,532</u>
Expenses:						
General government	2,385	2,297	-	-	2,385	2,297
Public safety	4,124	3,918	-	-	4,124	3,918
Education	20,526	18,929	-	-	20,526	18,929
Public works	1,773	2,035	-	-	1,773	2,035
Human services	318	297	-	-	318	297
Culture and recreation	875	863	-	-	875	863
Employee benefits	5,559	5,308	-	-	5,559	5,308
Intergovernmental	326	323	-	-	326	323
Interest on long-term debt	188	213	-	-	188	213
Water	-	-	1,147	1,189	1,147	1,189
Sewer	-	-	1,232	1,297	1,232	1,297
Total expenses	<u>36,074</u>	<u>34,183</u>	<u>2,379</u>	<u>2,486</u>	<u>38,453</u>	<u>36,669</u>
Change in net position before transfers and contributions	(1,738)	(2,310)	267	173	(1,471)	(2,137)
Transfers in (out)	(67)	(67)	67	67	-	-
Permanent fund contributions	4	4	-	-	4	4
Change in net position	(1,801)	(2,373)	334	240	(1,467)	(2,133)
Net position - beginning of year	<u>17,823</u>	<u>20,196</u>	<u>10,973</u>	<u>10,733</u>	<u>28,796</u>	<u>30,929</u>
Net position - end of year	<u>\$ 16,022</u>	<u>\$ 17,823</u>	<u>\$ 11,307</u>	<u>\$ 10,973</u>	<u>\$ 27,329</u>	<u>\$ 28,796</u>

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 \$40,182,255 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, \$3,052,844, represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position has a negative balance of \$(15,906,058) for fiscal year 2016. This resulted primarily from the adoption of GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* in fiscal year 2015. 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 \$13,673,007 for the year ended June 30, 2016.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(1,801,205). Key elements of this change are as follows (in thousands):

Net OPEB obligation change	\$ (1,454)
General fund revenues in excess of expenditures	352
Town special revenue fund revenues in excess of expenditures (primarily the law enforcement trust fund and ambulance fund)	572
Depreciation over debt service principal	(1,224)
Other	<u>(47)</u>
Total	\$ <u><u>(1,801)</u></u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$333,655. The positive results of operations are primarily attributable to the water fund's revenues in excess of budgeted amounts and unspent appropriations.

#### **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 infor-

mation 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 \$(9,326), a change of \$(4,563,125) in comparison to the prior year. Most of this change was attributable to the following (in thousands):

General fund, see breakdown below	\$ 617
Police/Fire renovation major fund expenditures financed with note payable	(5,361)
Nonmajor funds revenues and transfers in over expenditures and transfers out	<u>181</u>
Total	<u>\$ (4,563)</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 \$2,413,220 while total fund balance was \$3,827,879. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance <sup>(1)</sup>	\$ 2,413,220	\$ 1,946,995	\$ 466,225	9.1%
Total fund balance	\$ 3,827,879	\$ 3,211,108	\$ 616,771	14.5%

<sup>(1)</sup> Includes General Stabilization fund balance of \$1,071,019 and \$929,322, respectively.

The total fund balance of the general fund changed by \$616,771 during the current fiscal year. Key factors in this change are as follows (in thousands):

Use of free cash as a funding source	\$ (629)
Transfer to stabilization fund, included in General fund	139
Revenues in excess of budget	544
Expenditures less than budget	503
Other	<u>60</u>
Total	<u>\$ 617</u>

Included in the total general unassigned fund balance is the Town's stabilization account with a year-end balance of \$1,071,019, a change of \$141,697 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 \$2,260,574, a change of \$398,454 in comparison to the prior year. 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 \$233,064. The amendments were related to Articles 3 and 4 of the May 9, 2016 Annual Town Meeting for police, building and recreation departments' wages, snow and ice, school LSP services, reserve fund and other costs funded by use of free cash.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year-end amounted to \$58,228,064 (net of accumulated depreciation), a change of \$5,562,555 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):

- \$ 5,229 Renovations to public safety buildings
- \$ 223 Library project
- \$ 317 Clyde Brown feasibility study
- \$ 609 Sewer pump station
- \$ 839 Paint Farm Street water tank

**Long-term debt.** At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$10,088,689, 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 Town'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, 2016

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Assets:			
Current:			
Cash and short-term investments	\$ 12,092,778	\$ 1,977,260	\$ 14,070,038
Investments	116,030	-	116,030
Receivables, net of allowance for uncollectibles:			
Property taxes	408,680	-	408,680
Excises	69,173	-	69,173
User fees	-	969,175	969,175
Departmental and other	176,176	-	176,176
Intergovernmental	443,718	-	443,718
Betterments	-	81,498	81,498
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	437,665	-	437,665
Betterments	6,285	476,677	482,962
Capital assets:			
Nondepreciable capital assets	10,153,542	3,531,159	13,684,701
Other capital assets, net of accumulated depreciation	34,019,302	10,524,061	44,543,363
<b>TOTAL ASSETS</b>	<b>57,923,349</b>	<b>17,559,830</b>	<b>75,483,179</b>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	2,010,822	123,808	2,134,630
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 59,934,171</b>	<b>\$ 17,683,638</b>	<b>\$ 77,617,809</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			
Liabilities:			
Current:			
Warrants payable	\$ 919,131	\$ 136,146	\$ 1,055,277
Retainage payable	226,103	-	226,103
Accrued liabilities	394,330	41,890	436,220
Notes payable	10,816,717	1,614,500	12,431,217
Unearned revenue	151,325	-	151,325
Other current liabilities	500	-	500
Current portion of long-term liabilities:			
Notes payable	1,492,434	256,255	1,748,689
Bonds payable	430,000	470,000	900,000
Compensated absences	23,845	-	23,845
Capital lease payable	21,610	-	21,610
Landfill postclosure care costs	9,863	-	9,863
Noncurrent:			
Long-term liabilities, net of current portion:			
Bonds payable	4,640,000	2,800,000	7,440,000
Compensated absences	453,064	-	453,064
Capital lease payable	22,452	-	22,452
Landfill postclosure care costs	113,265	-	113,265
Net OPEB obligation	9,639,296	161,695	9,800,991
Net pension liability	12,879,973	793,034	13,673,007
<b>TOTAL LIABILITIES</b>	<b>42,233,908</b>	<b>6,273,520</b>	<b>48,507,428</b>
DEFERRED INFLOWS OF RESOURCES			
Pension related	1,678,022	103,318	1,781,340
Net Position:			
Net investment in capital assets	31,136,029	9,046,226	40,182,255
Restricted for:			
Grants and other statutory restrictions	2,859,578	-	2,859,578
Permanent funds:			
Nonexpendable	182,093	-	182,093
Expendable	11,173	-	11,173
Unrestricted	(18,166,632)	2,260,574	(15,906,058)
<b>TOTAL NET POSITION</b>	<b>16,022,241</b>	<b>11,306,800</b>	<b>27,329,041</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 59,934,171</b>	<b>\$ 17,683,638</b>	<b>\$ 77,617,809</b>

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

TOWN OF MILLIS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	<u>Expenses</u>				
<b>Governmental Activities:</b>					
General government	\$ 2,385,008	\$ 276,539	\$ 21,404	\$ -	\$ (2,087,065)
Public safety	4,124,027	508,139	323,818	-	(3,292,070)
Education	20,526,269	1,158,131	8,753,344	122,904	(10,491,890)
Public works	1,773,022	588,330	13,500	258,677	(912,515)
Health and human services	317,780	60,164	22,315	-	(235,301)
Culture and recreation	874,797	155,728	74,462	37,313	(607,294)
Employee benefits	5,559,461	-	-	-	(5,559,461)
Intergovernmental	326,041	-	-	-	(326,041)
Interest	188,580	-	-	-	(188,580)
Total Governmental Activities	36,074,985	2,747,031	9,208,843	418,894	(23,700,217)
<b>Business-Type Activities:</b>					
Water services	1,147,031	1,420,167	-	-	273,136
Sewer services	1,232,073	1,224,154	-	-	(7,919)
Total Business-Type Activities	2,379,104	2,644,321	-	-	265,217
Total	\$ <u>38,454,089</u>	\$ <u>5,391,352</u>	\$ <u>9,208,843</u>	\$ <u>418,894</u>	(23,435,000)

(continued)

TOWN OF MILLIS, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

(continued)

	Governmental Activities	Business- Type Activities	Total
Changes in Net Position:			
Net (expenses) revenue from previous page	\$ (23,700,217)	\$ 265,217	\$ (23,435,000)
<b>General Revenues, Transfers, and Contributions:</b>			
Property taxes	18,685,702	-	18,685,702
Excises	1,188,389	-	1,188,389
Penalties, interest and other taxes	184,710	-	184,710
Grants and contributions not restricted to specific programs	1,069,289	-	1,069,289
Investment income	24,386	1,585	25,971
Miscellaneous	809,464	-	809,464
Transfers, net	(66,853)	66,853	-
Permanent fund contributions	3,925	-	3,925
Total general revenues, transfers, and contributions	<u>21,899,012</u>	<u>68,438</u>	<u>21,967,450</u>
Change in Net Position	(1,801,205)	333,655	(1,467,550)
<b>Net Position:</b>			
Beginning of year	<u>17,823,446</u>	<u>10,973,145</u>	<u>28,796,591</u>
End of year	<u>\$ 16,022,241</u>	<u>\$ 11,306,800</u>	<u>\$ 27,329,041</u>

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



## TOWN OF MILLIS, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Police/Fire Renovations Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,090,567	\$ 4,699,929	\$ 3,302,283	\$ 12,092,779
Investments	116,030	-	-	116,030
Receivables:				
Property taxes	993,403	-	1,942	995,345
Excises	161,173	-	-	161,173
Departmental and other	-	-	176,176	176,176
Intergovernmental	-	-	443,716	443,716
Betterments	-	-	6,285	6,285
<b>TOTAL ASSETS</b>	<u><u>\$ 5,361,173</u></u>	<u><u>\$ 4,699,929</u></u>	<u><u>\$ 3,930,402</u></u>	<u><u>\$ 13,991,504</u></u>
<b>LIABILITIES</b>				
Warrants payable	\$ 122,536	\$ 787,424	\$ 9,171	\$ 919,131
Retainage payable	-	226,103	-	226,103
Accrued liabilities	335,129	-	-	335,129
Notes payable	-	9,961,000	855,718	10,816,718
Unearned revenue	-	-	151,325	151,325
Other current liabilities	500	-	-	500
<b>TOTAL LIABILITIES</b>	<u>458,165</u>	<u>10,974,527</u>	<u>1,016,214</u>	<u>12,448,906</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues	1,075,129		476,795	1,551,924
<b>FUND BALANCES</b>				
Nonspendable	-	-	182,093	182,093
Restricted	317,845	-	3,076,896	3,394,741
Committed	257,295	-	-	257,295
Assigned	839,519	-	-	839,519
Unassigned	<u>2,413,220</u>	<u>(6,274,598)</u>	<u>(821,596)</u>	<u>(4,682,974)</u>
<b>TOTAL FUND BALANCES</b>	<u><u>3,827,879</u></u>	<u><u>(6,274,598)</u></u>	<u><u>2,437,393</u></u>	<u><u>(9,326)</u></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 5,361,173</u></u>	<u><u>\$ 4,699,929</u></u>	<u><u>\$ 3,930,402</u></u>	<u><u>\$ 13,991,504</u></u>

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

TOWN OF MILLIS, MASSACHUSETTS

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

JUNE 30, 2016

<b>Total governmental fund balances</b>	\$ (9,326)
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	44,172,844
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,310,924
<ul style="list-style-type: none"><li>• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(59,199)
<ul style="list-style-type: none"><li>• 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.</li></ul>	
Bonds and long term notes payable	(6,562,434)
Net OPEB obligation	(9,639,296)
Net pension liability, net of deferred outflow of resources	(12,547,173)
Landfill liability	(123,128)
Capital lease payable	(44,062)
Compensated absences	<u>(476,909)</u>
<b>Net position of governmental activities</b>	\$ <u><u>16,022,241</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, 2016

	<u>General</u>	<u>Police/Fire Renovations Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 18,596,424	\$ -	\$ 130,859	\$ 18,727,283
Excises	1,187,576	-	-	1,187,576
Penalties, interest and other taxes	184,332	-	378	184,710
Charges for services	235,533	-	2,163,887	2,399,420
Intergovernmental	5,737,261	-	2,247,203	7,984,464
Licenses and permits	348,718	-	-	348,718
Fines and forfeitures	14,159	-	-	14,159
Investment income	21,880	-	2,506	24,386
Contributions	-	-	208,189	208,189
Miscellaneous	409,852	-	399,618	809,470
Total Revenues	26,735,735	-	5,152,640	31,888,375
<b>Expenditures:</b>				
Current:				
General government	1,880,102	-	351,530	2,231,632
Public safety	3,253,215	5,360,632	513,801	9,127,648
Education	14,547,558	-	3,406,482	17,954,040
Public works	724,115	-	470,257	1,194,372
Health and human services	267,767	-	30,412	298,179
Culture and recreation	428,359	-	466,827	895,186
Employee benefits	4,082,273	-	-	4,082,273
Debt service				
Principal retirement	681,154	-	81,250	762,404
Interest and fiscal charges	193,038	-	2,989	196,027
Intergovernmental	326,041	-	-	326,041
Total Expenditures	26,383,622	5,360,632	5,323,548	37,067,802
Excess (deficiency) of revenues over expenditures	352,113	(5,360,632)	(170,908)	(5,179,427)
<b>Other Financing Sources (Uses):</b>				
Issuance of long-term debt	-	-	615,766	615,766
Capital lease proceeds	67,390	-	-	67,390
Transfers in (Note 19)	325,595	-	61,474	387,069
Transfers out	(128,327)	-	(325,596)	(453,923)
Total Other Financing Sources (Uses)	264,658	-	351,644	616,302
Excess (deficiency) of revenues and other sources over expenditures and other uses	616,771	(5,360,632)	180,736	(4,563,125)
Fund Equity, at Beginning of Year	3,211,108	(913,966)	2,256,657	4,553,799
Fund Equity, at End of Year	\$ 3,827,879	\$ (6,274,598)	\$ 2,437,393	\$ (9,326)

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, 2016

<b>NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (4,563,125)</b>
<ul style="list-style-type: none"> <li>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</li> </ul>	
Capital outlay purchases, net of disposals	6,188,146
Depreciation	(1,985,931)
<ul style="list-style-type: none"> <li>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for doubtful accounts.</li> </ul>	(87,008)
<ul style="list-style-type: none"> <li>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.</li> </ul>	
Repayments of bonds and notes	762,404
Note issuances	(615,766)
Repayments of capital lease	23,328
Proceeds of capital lease	(67,390)
<ul style="list-style-type: none"> <li>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li> </ul>	7,447
<ul style="list-style-type: none"> <li>Some expenses reported in the Statement of Activities, such as OPEB and net pension liabilities, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.</li> </ul>	
Change in other post-employment benefits liability	(1,453,720)
Change in compensated absence liability	4,254
Change in net pension liability	183,174
Change in deferred outflows and inflows of resources related to pension	(206,641)
Change in landfill liability	<u>9,623</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>(1,801,205)</u></b>

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, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Transfers In:</b>				
Property taxes	\$ 18,447,203	\$ 18,447,203	\$ 18,447,203	\$ -
Excises	974,772	974,772	1,187,576	212,804
Penalties, interest and other taxes	156,102	156,102	184,332	28,230
Charges for services	219,028	219,028	235,533	16,505
Intergovernmental	5,764,389	5,764,389	5,737,261	(27,128)
Licenses and permits	189,000	189,000	348,718	159,718
Fines and forfeitures	17,101	17,101	14,159	(2,942)
Investment income	16,000	16,000	19,328	3,328
Miscellaneous	256,862	256,862	409,852	152,990
Transfers in	689,850	689,850	689,850	-
Total Revenues and Transfers In	26,730,307	26,730,307	27,273,812	543,505
<b>Expenditures and Transfers Out:</b>				
General government	2,104,950	2,177,586	1,987,979	189,607
Public safety	3,254,617	3,312,617	3,253,048	59,569
Education	14,353,842	14,414,842	14,363,357	51,485
Public works	1,024,176	1,054,176	1,018,875	35,301
Health and human services	278,720	278,720	267,665	11,055
Culture and recreation	479,651	491,079	468,070	23,009
Employee benefits	4,187,510	4,187,510	4,074,007	113,503
Debt service	1,012,519	1,012,519	1,002,519	10,000
Intergovernmental	335,330	335,330	326,041	9,289
Transfers out	139,145	139,145	139,145	-
Total Expenditures and Transfers Out	27,170,460	27,403,524	26,900,706	502,818
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(440,153)	(673,217)	373,106	1,046,323
<b>Other Financing Sources:</b>				
Use of free cash:				
Non-recurring capital costs	269,623	269,623	-	(269,623)
Non-recurring costs	29,198	262,262	-	(262,262)
Recurring costs	97,395	97,395	-	(97,395)
Use of assigned fund balance	43,937	43,937	-	(43,937)
Total Other Sources	440,153	673,217	-	(673,217)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 373,106	\$ 373,106

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

TOWN OF MILLIS, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
Assets:			
Current:			
Cash and short-term investments	\$ 675,564	\$ 1,301,696	\$ 1,977,260
User fees	510,688	458,487	969,175
Betterment	-	81,498	81,498
Total current assets	1,186,252	1,841,681	3,027,933
Noncurrent:			
Betterment	-	476,677	476,677
Capital assets:			
Nondepreciable capital assets	2,915,083	616,076	3,531,159
Other capital assets, net of accumulated depreciation	5,203,852	5,320,209	10,524,061
Total noncurrent assets	8,118,935	6,412,962	14,531,897
<b>TOTAL ASSETS</b>	9,305,187	8,254,643	17,559,830
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	72,577	51,231	123,808
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 9,377,764</u>	<u>\$ 8,305,874</u>	<u>\$ 17,683,638</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			
Liabilities:			
Current:			
Warrants payable	\$ 20,637	\$ 115,509	\$ 136,146
Accrued liabilities	25,218	16,672	41,890
Notes payable	994,000	620,500	1,614,500
Current portion of long-term liabilities:			
Notes payable	230,900	25,355	256,255
Bonds payable	240,000	230,000	470,000
Total current liabilities	1,510,755	1,008,036	2,518,791
Noncurrent:			
Bonds payable, net of current portion	1,535,000	1,265,000	2,800,000
Net OPEB obligation	94,120	67,575	161,695
Net pension liability	464,882	328,152	793,034
Total noncurrent liabilities	2,094,002	1,660,727	3,754,729
<b>TOTAL LIABILITIES</b>	3,604,757	2,668,763	6,273,520
DEFERRED INFLOWS OF RESOURCES			
Pension related	60,566	42,752	103,318
Net Position:			
Net investment in capital assets	5,153,458	3,892,768	9,046,226
Unrestricted	558,983	1,701,591	2,260,574
<b>TOTAL NET POSITION</b>	<u>5,712,441</u>	<u>5,594,359</u>	<u>11,306,800</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 9,377,764</u>	<u>\$ 8,305,874</u>	<u>\$ 17,683,638</u>

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, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 1,420,167	\$ 1,224,154	\$ 2,644,321
Total Operating Revenues	1,420,167	1,224,154	2,644,321
<b>Operating Expenses:</b>			
Personnel services	305,174	218,711	523,885
Nonpersonnel	566,266	739,621	1,305,887
Depreciation	213,748	212,391	426,139
Total Operating Expenses	1,085,188	1,170,723	2,255,911
Operating Income	334,979	53,431	388,410
<b>Nonoperating Revenues (Expenses):</b>			
Interest income	951	634	1,585
Interest expense	(61,843)	(61,350)	(123,193)
Total Nonoperating Revenues (Expenses), Net	(60,892)	(60,716)	(121,608)
Income (Loss) Before Transfers	274,087	(7,285)	266,802
<b>Transfers:</b>			
Transfers in	66,853	-	66,853
Change in Net Position	340,940	(7,285)	333,655
Net Position at Beginning of Year	5,371,501	5,601,644	10,973,145
Net Position at End of Year	\$ 5,712,441	\$ 5,594,359	\$ 11,306,800

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, 2016

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 1,409,150	\$ 1,343,658	\$ 2,752,808
Payments to vendors and employees	<u>(847,594)</u>	<u>(837,919)</u>	<u>(1,685,513)</u>
Net Cash Provided By Operating Activities	561,556	505,739	1,067,295
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>			
Transfer in	<u>66,853</u>	<u>-</u>	<u>66,853</u>
Net Cash Provided By Noncapital Financing Activities	66,853	-	66,853
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Acquisition and construction of capital assets	(1,177,292)	(609,187)	(1,786,479)
Proceeds from short-term notes	994,000	-	994,000
Principal payments on short-term notes	-	(66,645)	(66,645)
Principal payments on long-term bonds and notes	(287,033)	(235,000)	(522,033)
Interest expense	<u>(65,260)</u>	<u>(64,217)</u>	<u>(129,477)</u>
Net Cash Used For Capital and Related Financing Activities	(535,585)	(975,049)	(1,510,634)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>948</u>	<u>638</u>	<u>1,586</u>
Net Cash Provided By Investing Activities	<u>948</u>	<u>638</u>	<u>1,586</u>
Net Change in Cash and Short-Term Investments	93,772	(468,672)	(374,900)
Cash and Short-Term Investments, Beginning of Year	<u>581,792</u>	<u>1,770,368</u>	<u>2,352,160</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 675,564</u></u>	<u><u>\$ 1,301,696</u></u>	<u><u>\$ 1,977,260</u></u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u></b>			
Operating income	\$ 334,979	\$ 53,431	\$ 388,410
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	213,748	212,391	426,139
Changes in assets and liabilities:			
User fees	(11,017)	114,457	103,440
Betterments	-	5,047	5,047
Warrants and accounts payable	8,819	110,018	118,837
Other post employment benefits	14,180	9,797	23,977
Net pension liability	<u>847</u>	<u>598</u>	<u>1,445</u>
Net Cash Provided By Operating Activities	<u><u>\$ 561,556</u></u>	<u><u>\$ 505,739</u></u>	<u><u>\$ 1,067,295</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, 2016

	Private Purpose Trust <u>Funds</u>	Other Post Employment Benefit <u>Fund</u>	Agency <u>Funds</u>
<b><u>ASSETS</u></b>			
Cash	\$ <u>121,063</u>	\$ <u>101,326</u>	\$ <u>94,104</u>
Total Assets	121,063	101,326	94,104
<b><u>LIABILITIES AND NET POSITION</u></b>			
Other liabilities	<u>-</u>	<u>-</u>	<u>94,104</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>94,104</u>
<b><u>NET POSITION</u></b>			
Total net position held in trust	\$ <u><u>121,063</u></u>	\$ <u><u>101,326</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, 2016

	Private Purpose <u>Trust Funds</u>	Other Post Employment Benefit <u>Fund</u>
<b>Additions:</b>		
Contributions	\$ 8,731	\$ -
Investment Income	<u>643</u>	<u>253</u>
Total additions	9,374	253
<b>Deductions:</b>		
Education	<u>17,026</u>	<u>-</u>
Total deductions	<u>17,026</u>	<u>-</u>
Net increase (decrease)	(7,652)	253
<b>Net position:</b>		
Beginning of year	<u>128,715</u>	<u>101,073</u>
End of year	<u>\$ 121,063</u>	<u>\$ 101,326</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 Town of Millis, Massachusetts (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 Town 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 2016, 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. *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 Town 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 Town reports the following major governmental funds:

- The *General fund* is the Town'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 Town 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

Deposits with financial institutions consist primarily of demand deposits, money markets, and savings accounts. A cash 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 are included under investment income. Certain special revenue and fiduciary funds segregate cash.

#### 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.

#### 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 2016 tax levy reflected an excess capacity of \$325.

#### G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town 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 acquisition 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.

Property, plant and equipment of the Town 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
Machinery, equipment, and furnishings	5

#### H. Compensated Absences

It is the Town’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, net pension liability 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 plus deferred inflows of resources. 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 represent the residual classification for the general fund and include all amounts not contained in the other classifications. Unassigned amounts are available for any purpose. Temporary fund balance deficits are reported as negative amounts

in the unassigned classification in other governmental funds.  
Positive unassigned amounts are reported only in the general fund.

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)	\$ 26,735,735	\$ 26,383,622
Other financing sources/uses (GAAP Basis)	<u>392,985</u>	<u>128,327</u>
Subtotal (GAAP Basis)	27,128,720	26,511,949
Adjust tax revenue to accrual basis	(149,221)	-
To reverse expenditures of prior year appropriation carryforwards	-	(556,631)
To book current year appropriation carryforwards	-	509,378
To reverse capital lease gross up	(67,390)	(67,390)
To gross up transfers from enterprise funds	364,255	364,255
To reverse other nonbudgeted activity	<u>(2,552)</u>	<u>139,145</u>
Budgetary Basis	<u>\$ 27,273,812</u>	<u>\$ 26,900,706</u>

#### D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

##### Major Fund:

New Police/Fire Renovation	\$ 6,274,598 *
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##### Nonmajor Funds:

###### Special Revenue Funds

Chapter 90 Grant	256,127
Off-Duty Detail	51,392
911 Support Grant	1,393
e-911 Training Grant	9,380
911 Train/EMD Reg Grant	2,665
Police Bullet Proof Vest Grant	6,065
MEMA Grant	1,775
Special Education Grant	42,602
Special Education Early Childhood Grant	3,330

###### Capital Project Funds:

Clyde Brown School Feasibility Study	194,105 *
Additional Library Project	67,717 *
DPW Vehicles and Equipment	185,045 *
Subtotal nonmajor funds	821,596
Grand Total	\$ 7,096,194

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

The deficits in these funds will be eliminated through future intergovernmental revenues, and bond proceeds.

### **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, 2016, none of the Town's bank balance of \$14,990,312 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.

The Town's investment in certificates of deposit of \$116,030 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 certificate of deposit	\$ 87,890
Century Bank certificate of deposit	<u>28,140</u>
Total	<u>\$ 116,030</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.

**F. Fair Value**

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Town does not have any investments subject to GASB 72.

**5. Taxes Receivable**

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

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

Taxes receivable at June 30, 2016 consist of the following:

Real Estate		
2016	\$ 364,375	
2015	99,355	
2014	6,319	
2013 & prior	<u>5,336</u>	
		475,385
Personal Property		
2016	3,965	
2015	1,319	
2014	3,974	
2013 & prior	<u>31,093</u>	
Subtotal		40,351
Tax Liens and foreclosures		477,667
CPA		<u>1,942</u>
Total fund basis receivable		995,345
Less: allowance for doubtful accounts		<u>(149,000)</u>
Total government wide receivable		<u>\$ 846,345</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 \$92,000 allowance for doubtful accounts.

## 7. Intergovernmental Receivables

This balance represents various reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

## 8. Betterment Receivable

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

## 9. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 25,621	\$ 549	-	\$ 26,170
Machinery, equipment, furnishings, and vehicles	6,941	438	(70)	7,309
Infrastructure	<u>25,463</u>	<u>-</u>	<u>-</u>	<u>25,463</u>
Total capital assets, being depreciated	58,025	987	(70)	58,942
Less accumulated depreciation for:				
Buildings and improvements	(9,541)	(756)	-	(10,297)
Machinery, equipment, furnishings, and vehicles	(4,681)	(554)	42	(5,193)
Infrastructure	<u>(8,757)</u>	<u>(676)</u>	<u>-</u>	<u>(9,433)</u>
Total accumulated depreciation	<u>(22,979)</u>	<u>(1,986)</u>	<u>42</u>	<u>(24,923)</u>
Total capital assets, being depreciated, net	35,046	(999)	(28)	34,019
Capital assets, not being depreciated:				
Land	3,407	-	-	3,407
Construction in progress	<u>1,518</u>	<u>5,778</u>	<u>(549)</u>	<u>6,747</u>
Total capital assets, not being depreciated	<u>4,925</u>	<u>5,778</u>	<u>(549)</u>	<u>10,154</u>
Governmental activities capital assets, net	<u>\$ 39,971</u>	<u>\$ 4,779</u>	<u>\$ (577)</u>	<u>\$ 44,173</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,474	\$ 146	\$ -	\$ 2,620
Machinery, equipment, furnishings, and vehicles	1,693	-	-	1,693
Infrastructure	<u>13,365</u>	<u>-</u>	<u>-</u>	<u>13,365</u>
Total capital assets, being depreciated	17,532	146	-	17,678
Less accumulated depreciation for:				
Buildings and improvements	(1,586)	(53)	-	(1,639)
Machinery, equipment, furnishings, and vehicles	(1,231)	(54)	-	(1,285)
Infrastructure	<u>(3,911)</u>	<u>(319)</u>	<u>-</u>	<u>(4,230)</u>
Total accumulated depreciation	<u>(6,728)</u>	<u>(426)</u>	<u>-</u>	<u>(7,154)</u>
Total capital assets, being depreciated, net	10,804	(280)	-	10,524
Capital assets, not being depreciated:				
Land	1,376	-	-	1,376
Construction in progress	<u>515</u>	<u>1,786</u>	<u>(146)</u>	<u>2,155</u>
Total capital assets, not being depreciated	<u>1,891</u>	<u>1,786</u>	<u>(146)</u>	<u>3,531</u>
Business-type activities capital assets, net	<u>\$ 12,695</u>	<u>\$ 1,506</u>	<u>\$ (146)</u>	<u>\$ 14,055</u>

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

<b>Governmental Activities:</b>	
General government	\$ 187
Public safety	268
Education	552
Public works	766
Health and human services	15
Culture and recreation	<u>198</u>
Total depreciation expense - governmental activities	<u>\$ 1,986</u>
<b>Business-Type Activities:</b>	
Water	\$ 214
Sewer	<u>212</u>
Total depreciation expense - business-type activities	<u>\$ 426</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, 2016 relate to the retirement system and represent net differences between projected and actual investment earnings of \$1,857,587 and differences between expected and actual experience of \$277,043.

## 11. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016 as permitted by law.

## 12. Notes Payable

The Town had the following short term notes outstanding at June 30, 2016:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>6/30/16</u>
Governmental:				
Police and Fire Station	0.73%	06/26/15	08/01/16	\$ 2,500,000
Police and Fire Station	2.00%	08/28/15	08/01/16	7,461,000
Library	0.75%	12/07/15	08/01/16	67,717
DPW Vehicle	0.75%	12/07/15	08/01/16	188,000
Clyde Brown Feasability Study	0.75%	03/01/16	03/01/17	<u>600,000</u>
Subtotal				10,816,717
Enterprise:				
Water Street Sewer Pump Station	0.60%	06/01/15	08/01/16	620,500
Paint Farm St. Tank	0.75%	10/05/15	08/01/16	638,000
Ross Ave. Water System Improvements	0.75%	12/07/15	08/01/16	230,000
Additional Chlorination Contact Loop	0.75%	03/01/16	08/01/16	<u>126,000</u>
Subtotal				<u>1,614,500</u>
Total notes payable				<u>\$ 12,431,217</u>

The following summarizes activity in notes payable during fiscal year 2016:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Governmental:				
Police and Fire Station	\$ 2,500,000	\$ 7,461,000	\$ -	\$ 9,961,000
VMC Masonary	425,000	-	(425,000)	-
Field Improvement	150,000	-	(150,000)	-
VMC Boiler Replacement	102,240	-	(102,240)	-
Library	-	67,717	-	67,717
DPW Vehicle	-	188,000	-	188,000
Clyde Brown Feasability Study	-	600,000	-	600,000
Subtotal	3,177,240	8,316,717	(677,240)	10,816,717
Enterprise:				
Sewer Extension Project	92,000	-	(92,000)	-
Water Street Sewer Pump Station	620,500	620,500	(620,500)	620,500
Paint Farm St. Tank	-	638,000	-	638,000
Ross Ave. Water System Improvements	-	230,000	-	230,000
Additional Chlorination Contact Loop	-	126,000	-	126,000
Subtotal	712,500	1,614,500	(712,500)	1,614,500
Total	\$ 3,889,740	\$ 9,931,217	\$ (1,389,740)	\$ 12,431,217

### 13. Capital Lease Obligations

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through 2018. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2016:

	<u>Governmental Activities</u>
2017	\$ 23,328
2018	<u>23,328</u>
Total minimum lease payments	46,656
Less: amounts representing interest	<u>(2,594)</u>
Present Value of Minimum Lease Payments	\$ <u>44,062</u>



The following is an analysis for the leased assets included in capital assets at June 30, 2016:

	Governmental <u>Activities</u>
Machinery, vehicles and equipment	\$ 67,390
Less: accumulated depreciation	<u>(12,355)</u>
Equipment under capital leases, net	<u>\$ 55,035</u>

## 14. 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:

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/16</u>
Landfill capping	07/01/17	2.80%	\$ 85,000
Land acquisition	10/15/18	2.80%	125,000
DPW garage	08/15/18	3.97%	60,000
Surface drain - Acorn St	10/01/25	3.91%	250,000
Surface drain - Main St	02/15/23	3.30%	80,000
Public way - Klifford	02/15/26	3.31%	220,000
Library construction	02/15/33	3.09%	<u>4,250,000</u>
Total Governmental Activities:			<u>\$ 5,070,000</u>

<u>Business-Type Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/16</u>
Well field development - Paine	10/15/20	2.80%	\$ 330,000
Water well 5 and 6	08/15/23	4.28%	108,000
Water well - Paine	08/15/23	4.27%	652,000
Water mains - Orchard St	10/01/16	3.93%	10,000
Water mains - Irving St	02/15/33	3.30%	98,000
Water mains - Forest Rd	02/15/33	3.30%	577,000
Sewer improvements - Flintlock	07/01/17	2.80%	105,000
Sewer improvements - area A&B	10/15/20	2.80%	350,000
Sewer improvements - area E	10/01/26	3.91%	935,000
Sewer improvements - Franklin	02/15/23	3.30%	<u>105,000</u>
Total Business-Type Activities:			<u>\$ 3,270,000</u>

**B. Long Term Notes Payable**

The Town had the following long term notes outstanding at June 30, 2016:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/16</u>
Governmental:				
Ambulance Bay	0.73%	07/10/15	07/08/16	\$ 45,000
Causeway St. Culvert	1.00%	12/11/15	12/09/16	48,000
Dewey Land Purchase	0.73%	07/17/15	07/15/16	60,000
Fire Truck	0.73%	07/17/15	08/01/16	723,668
VMC Masonary	0.73%	07/17/15	08/01/16	403,750
Field Improvement	0.75%	09/15/15	09/15/16	120,000
VMC Boiler Replacement	0.75%	10/27/15	08/01/16	<u>92,016</u>
Subtotal				1,492,434
Enterprise:				
Water System Improvements	1.00%	10/23/15	10/21/16	8,500
Water Chlorination Contact				
Loop Project	0.70%	01/15/16	08/01/16	222,400
Sewer Extension Project	0.75%	09/15/15	09/15/16	<u>25,355</u>
Subtotal				<u>256,255</u>
Total				<u>\$ 1,748,689</u>

The Town intends to renew these notes.

**C. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	305,000	112,975	417,975
2022 - 2026	1,495,000	385,775	1,880,775
2027 - 2031	1,250,000	167,385	1,417,385
2032 - 2033	<u>500,000</u>	<u>20,625</u>	<u>520,625</u>
Total	<u>\$ 5,070,000</u>	<u>\$ 1,257,710</u>	<u>\$ 6,327,710</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, 2016.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 470,000	\$ 117,049	\$ 587,049
2018	445,000	102,361	547,361
2019	395,000	8,681	403,681
2020	390,000	71,356	461,356
2021	320,000	56,585	376,585
2022 - 2026	940,000	131,230	1,071,230
2027 - 2031	250,000	2,250	252,250
2032 - 2033	60,000	2,475	62,475
Total	<u>\$ 3,270,000</u>	<u>\$ 491,987</u>	<u>\$ 3,761,987</u>

**D. Changes in General Long-Term Liabilities**

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/15</u>	Additions	Reductions	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>						
Note payable	\$ 1,034	\$ 1,492	(1,034)	\$ 1,492	\$ (1,492)	\$ -
Bonds payable	5,675	-	(605)	5,070	(430)	4,640
Other:						
Accrued employee benefits	482	-	(5)	477	(24)	453
Capital leases payable	-	67	(23)	44	(22)	22
Landfill closure	132	-	(9)	123	(10)	113
Net OPEB obligation	8,186	1,453	-	9,639	-	9,639
Net pension liability	13,063	-	(183)	12,880	-	12,880
Totals	<u>\$ 28,572</u>	<u>\$ 3,012</u>	<u>\$ (1,859)</u>	<u>\$ 29,725</u>	<u>\$ (1,978)</u>	<u>\$ 27,747</u>
<u>Business-Type Activities</u>						
Note payable	\$ 278	\$ 256	(278)	\$ 256	\$ (256)	\$ -
Bonds payable	3,745	-	(475)	3,270	(470)	2,800
Other:						
Net OPEB obligation	138	24	-	162	-	162
Net pension liability	804	-	(11)	793	-	793
Totals	<u>\$ 4,965</u>	<u>\$ 280</u>	<u>\$ (764)</u>	<u>\$ 4,481</u>	<u>\$ (726)</u>	<u>\$ 3,755</u>

**15. 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 \$123,128 as landfill closure and postclosure care liability at June 30, 2016. This amount is based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**16. 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 reported in the governmental funds at June 30, 2016 represent unavailable revenues.

Deferred inflows of resources reported in the governmental and business-type activities at June 30, 2016, relate to the retirement system and represent changes in assumption of \$1,152,319 and change in proportion of \$629,021.

**17. 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.

**18. 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, 2016:

Nonspendable - 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 - 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 - This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting.

Assigned - 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 – This fund balance classification includes the remaining general fund, fund balance, 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 deficits in nonmajor governmental funds.

Following is a breakdown of the Town's fund balances at June 30, 2016:

	General Fund	New Police/ Fire Renovation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 182,093	\$ 182,093
Total Nonspendable	-	-	182,093	182,093
Restricted				
Reserved for debt service	317,845	-	-	317,845
Bonded projects	-	-	206,145	206,145
Special revenue funds:				
Community preservation	-	-	470,996	470,996
School choice tuition	-	-	427,300	427,300
Ambulance	-	-	295,066	295,066
Circuit breaker	-	-	268,375	268,375
Law enforcement trust	-	-	209,812	209,812
Cellular antennae lease	-	-	124,187	124,187
School transportation	-	-	121,537	121,537
Extended day care	-	-	115,167	115,167
Other	-	-	797,259	797,259
Expendable permanent funds	-	-	41,052	41,052
Total Restricted	317,845	-	3,076,896	3,394,741
Committed				
Reserved for articles	257,295	-	-	257,295
Total Committed	257,295	-	-	257,295
Assigned				
Encumbrances	252,082	-	-	252,082
For next year's expenditures	587,437	-	-	587,437
Total Assigned	839,519	-	-	839,519
Unassigned <sup>(1)</sup>	2,413,220	(6,274,598)	(821,596)	(4,682,974)
Total Unassigned	2,413,220	(6,274,598)	(821,596)	(4,682,974)
Total Fund Balance	\$ 3,827,879	\$ (6,274,598)	\$ 2,437,393	\$ (9,326)

<sup>(1)</sup> General Fund includes Stabilization fund balance of \$1,071,019

## 19. 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 2016:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 325,595	\$ 128,327
Nonmajor Funds:		
Special Revenue Funds:		
Town funds (includes ambulance)	-	311,800
Septic fund	-	13,410
Expendable trust funds	-	385
Capital Project Funds:		
Town capital funds	<u>61,474</u>	<u>-</u>
Subtotal Nonmajor Funds	61,474	325,595
<u>Business-Type Funds:</u>		
Water Fund	<u>66,853</u>	<u>-</u>
Subtotal Business-Type Funds	<u>66,853</u>	<u>-</u>
Grand Total	<u>\$ 453,922</u>	<u>\$ 453,922</u>

Transfers in to the general fund from the various special revenue funds are required by budgetary authorizations. Transfers out of the general fund represent payments to the capital project and water funds for short term debt payments.

Transfer out from the Ambulance Fund to the General Fund of \$265,000 is used to fund fire salaries, equipment, and other various public safety expenses in the General Fund. The Ambulance Fund generates approximately \$286,000 in revenues annually.

## 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 cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to the Board of Assessors, 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**

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, dental 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 2016 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, 2016, 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)	\$ 2,029,026
Interest on net OPEB obligation	332,932
Amortization on net OPEB obligation	(462,824)
Adjustment to ARC	<u>309,822</u>
Annual OPEB cost	2,208,956
Contributions made	<u>(731,259)</u>
Increase in net OPEB obligation	1,477,697
Net OPEB obligation - beginning of year	<u>8,323,294</u>
Net OPEB obligation - end of year	<u>\$ 9,800,991</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>
2016	\$ 2,208,956	33.1%	\$ 9,800,991
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

The Town's net OPEB obligation as of June 30, 2016 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.

#### Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, 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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform

the duties of the Group position for at least 12 months immediately prior to retirement.

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.

#### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

#### Participants 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 on or 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

#### Employer Contributions

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, 2015 was \$1,355,416, which was equal to its annual required contribution.

**B. 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.

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

At June 30, 2016, the Town reported a liability of \$13,673,007 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2015, the Town's proportion was 2.517064 percent.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,333,682. In addition, the Town reported the following deferred outflows and inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 277,043	\$ -
Net difference between projected and actual earnings on pension plan investments	1,857,587	-
Changes of assumptions	-	1,152,319
Changes in proportion and differences between contributions and proportionate share of contributions	-	629,021
Total	<u>\$ 2,134,630</u>	<u>\$ 1,781,340</u>

Net 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	\$ 107,313
2017	107,313
2018	107,313
2019	<u>31,351</u>
Total	\$ <u>353,290</u>

*D. 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	1/1/16 rolled forward to 12/31/15
Actuarial cost method	Entry Age Normal Cost Method
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.50 - 5.50%
Inflation rate	4.00%
Post-retirement cost-of-living adjustment	

Mortality rates were based on the RP-2014 Blue Collar Mortality Table adjusted with scale MP-2014.

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, 2015.

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%	9.4%
International equity	17.5%	9.7%
Fixed income	19.0%	3.4%
Real estate	9.0%	7.7%
Private equity	8.5%	13.6%
Hedge funds	9.0%	7.9%
Real assets	5.0%	7.9%
Total	<u>100.00%</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 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.

*F. 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 8.0 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 (7.0%) or 1 percentage-point higher (9.0%) than the current rate:

<u>Year Ended</u>	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
December 31, 2014	\$ 17,147,716	\$ 13,673,007	\$ 10,707,254

*G. 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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.50% 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-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
  - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. 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 6.5%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

*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 2015 (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 \$31,306,951 and \$2,539,272 respectively, based on a proportionate share of 0.152794%. 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 2016 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	\$ 882
August	1,107
September	1,138
October	1,533
November	1,404
December	1,725
January	1,086
February	1,188
March	1,299
April	1,302
May	1,323
June	2,688
Total	<u>\$ 16,675</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. Subsequent Events

Subsequent to June 30, 2016, the Town paid off and rolled forward many of the bond anticipating notes included in Note 12 and 14. 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>
General Obligation Bond	\$ 15,311,936	various	7/13/2016	8/1/2036
Bond Anticipation Notes:				
Street Sweeper 5/9/16 ATM	\$ 205,000	0.95%	11/2/2016	11/2/2017
Water System Improvement, Dover Road 5/9/16 ATM	\$ 950,000	0.95%	11/14/2016	11/2/2017

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

**June 30, 2016**  
**(Unaudited)**

**Other Post-Employment Benefits**

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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.

**TOWN OF MILLIS, MASSACHUSETTS**  
**SCHEDULE OF PROPORTIONATE SHARE**  
**OF THE NET PENSION LIABILITY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**  
**(Unaudited)**

Norfolk County Retirement System					
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	2.517064%	\$13,673,007	\$ 6,886,081	198.56%	58.60%
June 30, 2015	2.673889%	\$13,867,460	\$ 6,536,914	212.14%	60.12%

Massachusetts Teachers' Retirement System							
<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town</u>	<u>Total Net Pension Liability Associated with the Town</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.152794%	\$ -	\$ 31,306,951	\$ 31,306,951	Not available	-	55.38%
June 30, 2015	0.145897%	\$ -	\$ 23,192,239	\$ 23,192,239	Not available	-	61.64%

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

See Independent Auditors' Report.

**TOWN OF MILLIS, MASSACHUSETTS**

**SCHEDULE OF PENSION CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016  
(Unaudited)**

Norfolk County Retirement System					
<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 1,355,413	\$ 1,355,413	\$ -	\$ 6,886,081	19.68%
June 30, 2015	\$ 1,293,722	\$ 1,293,722	\$ -	\$ 6,536,914	19.79%

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

See Independent Auditors' Report.

**Additional Offices:**

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Board of Selectmen  
Town of Millis, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millis, Massachusetts (the Town), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 3, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Melanson Heath*

February 2, 2017