



Bill Fraher, CPA

TOWN OF MIDDLETON, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information and Supplementary Information

Year ended June 30, 2015
(Except for the Electric Enterprise Fund
which is December 31, 2014)

(With Independent Auditor's Report Thereon)

TOWN OF MIDDLETON, MASSACHUSETTS

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Independent Auditor's Report

The Honorable Board of Selectman
Town Of Middleton, Massachusetts:

Report on the Financial Statements

I 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 Middleton, Massachusetts, as of and for the year ended June 30, 2015 (except for the electric enterprise fund which is December 31, 2014) and the related notes to the 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

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of a 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 Town'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 Town's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinions

In my 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 Middleton, Massachusetts, as of June 30, 2015 (except for the electric enterprise fund which is December 31, 2014), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 13 and the schedules of net pension liability and pension contributions on page 48 and 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing 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. I 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 regarding 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 obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Middleton's financial statements as a whole. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Implementation of GASB 68

As discussed in Note 15, for the 2015 financial statements the Town implemented GASB Statement #68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement #71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position for governmental activities was restated. My opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* I have also issued my report dated February 9, 2016 on my consideration of the Town of Middleton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Bill Fraher, CPA



February 9, 2016



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**INDEPENDENT AUDITOR'S 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**

The Honorable Board of Selectmen
Town of Middleton, Massachusetts

I have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts, as of and for the year ended June 30, 2015 (except for the electric enterprise fund which is December 31, 2014) and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated February 9, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Middleton's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Middleton'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 of material misstatement, I 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 my audit, and accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain other matters that I reported to management of the Town of Middleton, Massachusetts, in a separate letter dated February 9, 2016.

This report is intended solely for the information and use of the Board of Selectmen, management, others within the organization, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Bill Fraher CPA". The signature is stylized with a large, looped initial "B" and "F".

Bill Fraher, CPA
Boston, Massachusetts
February 9, 2016

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2015**

Each year, we are required to present a Management's Discussion and Analysis (MD&A) with our annual financial report. The MD&A is intended to introduce our financial statements to users and help them assess whether our government's overall financial health has improved or deteriorated as a result of the fiscal year's operations. This analysis describes activities for the governmental activities fiscal year ending June 30, 2015 and the business-type activities fiscal year ending December 31, 2014.

One required component of MD&A is to briefly describe the reasons for significant changes in our asset, liability, revenue and expenditure/expense account balances in comparison to the prior fiscal year.

This is the first year that Governmental Accounting Standards Board (GASB) Statement Number 68 was implanted on the Town's financial statements. GASB Statement Number 68 became effective for fiscal years beginning after June 15, 2014. This statement requires that the Town of Middleton (the Town) recognize annual pension expenses on an actuarially determined basis and recognize its share of the Essex Regional Retirement System's unfunded liability in the financial statements. This statement added \$13,615,408 of net pension liability to the Town's government-wide financial statements. The business-type activities are reported as of December 31, 2014 and as such their portion of the net pension liability is not reported but will be reported on next year's governmental-wide financial statements.

Another change that had a large impact on the governmental activities year end results was the reclassification of the Other Post-Employment Benefits (OPEB) fund from a stabilization fund to a trust fund reported under the fiduciary funds. In prior years the OPEB fund was classified as a stabilization fund and considered for financial statement purposes part of the general fund. During fiscal year 2015 the funds were placed in the Pension Reserves Investment Management Board (PRIT). Placing the funds in PRIT qualified the OPEB fund as a fiduciary fund. To reclassify the fund as a fiduciary fund an expense was made against employee benefits. The reclassification of these funds largely impacted the general fund operating results.

Financial Highlights of Fiscal Year 2015 (July 1, 2014 - June 30, 2015)

- At June 30, 2015, assets of the Town of Middleton exceeded its liabilities by \$53,168,518 (net position), a change of \$390,047 in comparison to the prior year, as restated. Of the amount at June 30, 2015, \$(3,679,657), is considered unrestricted (unrestricted net position), a change of \$(751,385) in comparison to the prior year. Major factors of this change are the reclassification of the OPEB fund from a stabilization fund to a trust fund and using larger amounts of fund balance to fund the fiscal year 2015 budget and not recapturing that amount with the actual revenues and expenditures in comparison to the budget. The unrestricted net position of the Town's governmental activities are \$(15,397,390), a change of \$(2,267,959) in comparison to the prior year. Unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net position of business-type activities was \$11,717,733 as of December 31, 2014, a change of \$1,516,574 in comparison to the prior year, and may be used to meet the ongoing obligations of the Town's municipal electric light department. It should be noted that the business-type activities did not have their allocation of the net pension liability reported but will be reported next year.
- The total cost of all town services for fiscal year 2015 was \$46,796,651, as compared to \$46,228,246 in the prior year, an increase of \$568,405 or 1.2%. Of the total cost of services, \$34,251,269 was spent on governmental activities (compared to \$33,273,979 last year) and an additional \$12,545,382 was spent on business type activities consisting solely of the municipal light department (compared to \$12,954,267 in the prior fiscal year).
- At June 30, 2015, the Town's governmental funds reported a combined ending fund balance of \$12,647,264, a decrease of \$1,405,564 in comparison to the prior year. At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,532,478 a change of \$(820,949) in comparison to the prior year.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
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- The Town's total long-term bonded indebtedness at June 30, 2015 was \$16,584,150, a decrease of \$1,201,063 in comparison to the prior year. In addition, The Town's Other Post Employment Benefits (OPEB) liability at the close of the fiscal year was \$7,811,108 for governmental activities and \$637,351 for the electric enterprise fund. The Town's landfill post-closure care costs liability at the close of fiscal year 2015 was \$1,050,000. The Town's net pension liability at the close of the fiscal year was \$13,315,408 for governmental activities. Finally, the business-type activities accrued vacation and sick time liability was \$170,907 at the close of their fiscal year ending December 31, 2014.
- The Town has additional overlapping debt of \$914,357 for the Town's share of the Essex Technical High School and \$839,378 for its share of the Masconomet Regional School District.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains 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 the Town of Middleton, Massachusetts' finances in a manner similar to a private sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise of 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).

The government-wide financial statements have separate columns for government activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include general administration, public safety, education, public works, health and human services, and culture and recreation. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** – Activities reported here are for electric light department operations. User fees charged to the customers receiving services finance these 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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town 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 *government activities* in the government-wide financial statements. However, unlike the government-wide financial statements,

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governmental fund financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on *balances of expendable resources* 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 Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town maintains one proprietary fund type. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of uses one enterprise fund to account for its electric light department.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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.

Reconciliation of Government-Wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.
- Reconciliation of the Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

Financial Analysis of the Government-Wide Financial Statements

Net position may serve over time as a useful indicator of a government's financial position. However, the net position of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not used to finance costs related to business-type activities. Revenues of the business-type activities are used to finance the operations of the Electric Enterprise Fund. The following table reflects the condensed net position.

**Town of Middleton, Massachusetts
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Town of Middleton - Net Position

	Governmental		Business-type			
	Activities		Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 15,846,542	\$ 16,994,497	\$ 13,734,492	\$ 12,197,709	\$ 29,581,034	\$ 29,192,206
Capital assets	57,342,538	58,050,491	9,512,977	9,281,046	66,855,515	67,331,537
Total assets	73,189,080	75,044,988	23,247,469	21,478,755	96,436,549	96,523,743
Current liabilities	3,137,677	2,653,464	1,096,180	1,137,735	4,233,857	\$ 3,791,199
Noncurrent liabilities	38,256,451	39,297,329	718,508	656,744	38,974,959	39,954,073
Total liabilities	41,394,128	41,950,793	1,814,688	1,794,479	43,208,816	43,745,272
Net position:						
Net investment in capital assets	40,758,388	40,265,278	9,512,977	9,281,046	50,271,365	\$ 49,546,324
Restricted	6,374,739	5,958,348	202,071	202,071	6,576,810	\$ 6,160,419
Unrestricted	(15,397,390)	(13,129,431)	11,717,733	10,201,159	(3,679,657)	(2,928,272)
Total net position	\$ 31,735,737	\$ 33,094,195	\$ 21,432,781	\$ 19,684,276	\$ 53,168,518	\$ 52,778,471

[Note that amounts for business-type activities are for the fiscal year ending December 31st.]

Significant changes from the prior year include: the implementation of GASB Statement Number 68 which added the net pension liability to the government-wide financial statements, an increase in current liabilities primarily due a BAN issued in fiscal year 2015, and a decrease in unrestricted net position due to the implementation of GASB Statement Number 68 and to an excess of expenditures over revenues (due in large part to OPEB expense).

The largest portion of the Town's total net position (94.6% of total net position) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (12.4% of total net position) represents resources that are subject to restrictions placed on how they may be used by parties external to the Town. Finally, unrestricted net position of \$(3,679,657) ((6.9%) of total net position) may be used to meet the government's on-going obligations to citizens and creditors. It is important to note that although the total unrestricted net position is \$(3,679,657), this includes the unrestricted net position of the Town's business-type activities of \$11,717,733, which may not be used to fund governmental activities.

At the end of fiscal year 2015, the Town was only able to report a positive balances for its business-type activities. The Town reported negative balances in the other two categories of net position: the governmental activities and the overall government as a whole. The Town's total net position changed by \$390,047 during the current fiscal year; governmental activities changed by \$(1,358,458) while business-type activities increased by \$1,748,505 (see discussion below).

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Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Net position. It reflects how the Town's net position have changed during fiscal year 2015 (note that business-type activities amounts are for the prior year ended December 31st).

Town of Middleton – Changes in Net Position

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 2,076,847	\$ 1,973,638	\$ 13,812,948	\$ 13,852,368	\$ 15,889,795	\$ 15,826,006
Operating grants and contributions	3,590,815	3,679,175	-	-	3,590,815	3,679,175
Capital grants and contributions	641,964	489,374	-	-	641,964	489,374
General revenues						
Property taxes	23,682,910	22,638,872	-	-	23,682,910	22,638,872
Excise taxes	1,912,969	1,862,406	-	-	1,912,969	1,862,406
Other	737,306	776,676	730,939	132,640	1,468,245	909,316
Total revenues	32,642,811	31,420,141	14,543,887	13,985,008	47,186,698	45,405,149
Expenses						
General government	1,985,676	2,169,366	-	-	1,985,676	2,169,366
Public safety	3,909,119	4,284,592	-	-	3,909,119	4,284,592
Education	23,743,443	22,203,743	-	-	23,743,443	22,203,743
Public works	2,556,407	2,684,031	-	-	2,556,407	2,684,031
Health & human services	551,731	539,350	-	-	551,731	539,350
Culture & recreation	960,294	837,477	-	-	960,294	837,477
Interest on debt	534,599	555,420	-	-	534,599	555,420
Electric light business activities	-	-	12,545,382	12,954,267	12,545,382	12,954,267
Total expenses	34,241,269	33,273,979	12,545,382	12,954,267	46,786,651	46,228,246
Changes in net position before transfers	(1,598,458)	(1,853,838)	1,998,505	1,030,741	400,047	(823,097)
Transfers	250,000	200,000	(250,000)	(200,000)	-	-
Total change in net position	(1,348,458)	(1,653,838)	1,748,505	830,741	400,047	(823,097)
Net position - beginning of year, as restated	33,094,195	34,748,033	19,684,276	18,853,535	52,778,471	53,601,568
Net position - end of year	\$ 31,745,737	\$ 33,094,195	\$ 21,432,781	\$ 19,684,276	\$ 53,178,518	\$ 52,778,471

[Note that amounts for business-type activities are for the fiscal year ending December 31st.]

Governmental Activities – Governmental activities net position decreased by \$1,358,458 or 4.1% during fiscal 2015. Major components of this decrease were 1) unfunded depreciation; 2) general fund actual operating results (unfavorable net of \$(794,107)); and 3) the reclassification of the OPEB fund from a stabilization fund reported as part of the general fund to a trust fund that is now reported as a fiduciary fund. The reclassification was done because the funds were placed in PRIT.

Business-type Activities – Business type activities net position increased by \$1,748,505 or 8.9% during the fiscal year ended December 31, 2014. The electric light department rates are structured to cover all costs related to the activity.

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Governmental funds - The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2015, the Town's governmental funds reported combined ending fund balance of \$12,647,264, a decrease of \$1,405,564 in comparison with the prior year. This decrease was in part due to the reclassification of the OPEB fund which was classified as a stabilization fund in fiscal year 2014 and as a fiduciary trust fund in fiscal year 2015. Another factor for the decrease is the use of available capital project balances for a land purchase. The Town has a healthy amount of general fund *unassigned fund balance* of \$4,354,378 which is available for spending at the government's discretion. The remainder of the fund balance is assigned, committed, restricted, or nonspendable to indicate it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period; continued appropriations for capital outlay and improvement purposes; non expendable permanent fund balances; community preservation program reserves and other purposes restricted by statute per detailed in the notes to the financial statements.

The general fund is the chief operating fund of the Town. At June 30, 2015, unassigned fund balance of the general fund was \$4,532,478, which includes \$1,725,063 of general stabilization fund balance. In addition to unassigned fund balance, the general fund had, \$465,192 restricted for a bond premium on a debt exclusion, \$1,385,700 committed for the fiscal year 2016 budget and approved warrant articles, and \$1,414,092 assigned for encumbrances and continued appropriations. 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 (including transfers to other funds). Unassigned fund balance represents 14.4% of total general fund expenditures (including transfers), while total fund balance represents 24.8% of the same amount. Nonmajor governmental funds had total fund balances of \$4,849,802 (most of which was restricted by statute or grantors).

The total general fund balance of the Town decreased by \$794,107, or 9.2%, during fiscal year 2015. The major reason for this decrease was in fiscal year 2015 the OPEB fund was reclassified as a fiduciary fund. Another reason for the decrease was using a greater amount of fund balance to fund the fiscal year 2015 budget and not recapturing that amount with the actual revenues and expenditures in comparison to the budget. Actual expenditures were \$322,319 lower and actual revenues were \$698,570 higher than budgeted amounts. Fiscal year 2015 general fund revenues and transfers from other funds totaled \$30,688,082, an increase of \$1,142,822 or 3.9% over the previous fiscal year.

Revenue Trends - General Fund

Source	Amount	% of Total Revenue	Increase/ (Decrease)	% Change
Real estate and personal property tax	23,627,389	77.0%	1,022,484	4.5%
Motor vehicle excise	1,899,214	6.2%	46,834	2.5%
Intergovernmental	3,489,249	11.4%	(104,067)	-2.9%
Departmental and other revenues	983,260	3.2%	90,945	10.2%
Investment income	32,970	0.1%	6,626	25.2%
Total revenues	30,032,082	97.9%	1,062,822	3.7%
Transfers from other funds	656,000	2.1%	80,000	13.9%
Total revenues and transfers from other funds	30,688,082	100.0%	1,142,822	3.9%

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Property tax growth generally represents a combination of the 2.5% annual increase allowed in the levy under Proposition 2 ½, new growth, and collection of prior years' delinquent taxes. The current year increase of 4.5% was due to the 2.5% allowed under the statute, new growth, and a reduction of outstanding tax receivables. Departmental revenue increased slightly from fiscal year 2014 due in part to building permit revenues which can vary year to year based on construction projects in Town.

Total general fund expenditures and transfers to other funds totaled \$31,482,189 an increase of \$1,911,689 or 6.5% over the previous fiscal year. The increase expenditure was due to the usual operating and capital budget increases.

Expenditure Trends - General Fund

Function	FY 2015 Amount	% of Total	Increase/ (Decrease)	% Change
General government	1313,984	4.2%	(18,013)	-8.2%
Public safety	3,225,669	10.2%	65,734	2.1%
Education	18,779,820	59.7%	1,332,784	7.6%
Public works	1,830,201	5.8%	(57,937)	-3.1%
Health and human services	407,662	13%	29,668	7.8%
Culture and recreation	479,072	15%	(26,748)	-5.3%
Intergovernmental	407,561	13%	11,425	2.9%
Employee benefits	3,273,637	10.4%	673,335	25.9%
Other	140,755	0.4%	14,255	11.3%
Debt service	1,623,828	5.2%	(12,814)	-0.8%
Total expenditures	31,482,189	100.0%	1,911,689	6.5%
Transfers to other funds	-	0.0%	-	0.0%
Total expenditures and transfers to other funds	31,482,189	100.0%	1,911,689	6.5%

The increase in expenditures was due to increases in the 2015 operating budgets for the Town and regional schools. The increase in education was due to increases in the two regional high school assessments as well as contractual wage and salary increases and program enhancements at the elementary schools. The increase to health and human services was due to increased veterans aid and an increase in wages for the Council on Aging. The increase in employee benefits was largely due to the OPEB fund's reclassification from a stabilization fund to a fiduciary fund in 2015. To move the OPEB fund out of the general fund it was expended out of the general fund as an employee benefit. The increase in intergovernmental expenses was due to the transfer of funds to the OPEB trust fund and a slight increase in the monthly State Assessment. Other increases and decreases in expenditures in fiscal year 2015 were due primarily to contractual wage and salary increases and special article appropriations.

The voters of the Town elected to implement the Community Preservation Act (CPA) in May of 2005, with a 1% surcharge on all real estate tax bills. The Town collected \$183,103 in additional property tax revenue in 2015 related to the CPA fund and \$54,963 from the state matching program.

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Proprietary fund - The Town's proprietary fund provides the same information found in the government-wide statements, but in slightly more detail. Net position increased by \$1,748,505 as the Light Department's rates have been set to cover expenses and increase net assets within the statutorily allowed limits. Additional information is available in the Light Department's separately issued financial statements.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was the additional appropriations made at the Special Town Meeting held in May 2015. The 2015 budget was set to utilize \$1,701,100 in available funds to offset authorized expenditures. Actual expenditures were \$322,319 lower than budgeted expenditures. Actual revenues were \$698,570 higher than budgeted amounts. All of these resulted in a net positive variance to budget of \$1,020,889.

Capital Asset and Debt Administration

Capital Assets - The Town's investments in capital assets for its governmental activities as of June 30, 2015 and business-type activities as of December 31, 2014 (net of accumulated depreciation, as reported in chart below as 2015), amounts to \$66,855,517, a decrease from the prior year amount of \$67,331,538. The investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 5,041,208	\$ 4,135,614	\$ 327,323	\$ 327,323	\$ 5,368,531	\$ 4,462,937
Buildings & Improvements	33,987,050	35,724,645	720,296	691,554	34,707,346	36,416,199
Equipment & Machinery	2,059,279	1,932,901	655,215	723,005	2,714,494	2,655,906
Infrastructure	15,899,352	15,901,682	7,810,145	7,539,165	23,709,497	23,440,847
Construction in Progress	355,649	355,649	-	-	355,649	355,649
Total	\$ 57,342,538	\$ 58,050,491	\$ 9,512,979	\$ 9,281,047	\$ 66,855,517	\$ 67,331,538

[Note that amounts for business-type activities are for the fiscal year ending December 31st.]

Major capital asset events during 2015 included the following:

- Total capital assets, net of accumulated depreciation decreased by \$476,021 due to depreciation expense was larger than the additions.
- Business-type activity capital assets increased by \$231,932 due to infrastructure additions being greater than depreciation.
- Government activity capital assets decreased by \$707,953 due to depreciation being greater than additions.

Additional information on the Town's capital assets may be found in Note 4 to the financial statements.

Long term debt – At June 30, 2015 the Town had total bonded debt outstanding of \$16,584,150, all for governmental activities. All debt issues are general obligations of the Town. A summary of outstanding debt is as follows:

**Town of Middleton, Massachusetts
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	Governmental		Business-type			
	Activities		Activities		Total	
	2015	2014	2015	2014	2015	2014
Education buildings	\$ 13,295,000	\$ 14,170,000	\$ -	\$ -	\$ 13,295,000	\$ 14,170,000
Municipal buildings	2,835,000	3,075,000	-	-	2,835,000	3,075,000
Municipal land	290,000	320,000	-	-	290,000	320,000
Title V septic program	55,350	61,613	-	-	55,350	61,613
Water	108,800	158,600	-	-	108,800	158,600
Total	\$ 16,584,150	\$ 17,785,213	\$ -	\$ -	\$ 16,584,150	\$ 17,785,213

[Note that amounts for business-type activities are for the fiscal year ending December 31st.]

Total long-term bonds and loans outstanding at June 30, 2015 decreased by \$1,201,063, or 6.8% from June 30, 2014 due to the bond payments and no additional bonds issued. The Town's bonds are rated Aa2 by Moody's Investor Services Inc. Additional information on the Town's long-term debt can be found in Notes 6 and 7 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Town of Middleton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CFO/Town Accountant, Town of Middleton, 48 South Main Street, Middleton, Massachusetts 01949.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Net Position

June 30, 2015

(Business-Type Activities December 31, 2014)

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 13,390,113	1,652,651	15,042,764
Investments	771,039	8,811,878	9,582,917
Receivables (net of allowance for uncollectibles)	1,639,250	1,801,639	3,440,889
Due from commonwealth	46,140	-	46,140
Other assets	-	1,468,324	1,468,324
Total current assets	15,846,542	13,734,492	29,581,034
Noncurrent assets:			
Capital assets not being depreciated	5,396,857	327,323	5,724,180
Capital assets being depreciated, net	51,945,681	9,185,654	61,131,335
Total noncurrent assets	\$ 57,342,538	9,512,977	66,855,515
Total assets	73,189,080	23,247,469	96,436,549
<u>Liabilities</u>			
Current liabilities:			
Warrants and accounts payable	\$ 464,244	674,762	1,139,006
Other accrued liabilities	737,109	331,668	1,068,777
Notes payable	450,000	-	450,000
Accrued interest payable	186,610	-	186,610
Other liabilities	30,307	-	30,307
Accrued compensated absences	-	89,750	89,750
Landfill postclosure care costs	52,500	-	52,500
Unamortized bond premium	25,844	-	25,844
Bonds payable	1,191,063	-	1,191,063
Total current liabilities	3,137,677	1,096,180	4,233,857
Noncurrent liabilities:			
Landfill postclosure care costs	997,500	-	997,500
Accrued compensated absences	-	81,157	81,157
Other post-employment benefits	7,811,108	637,351	8,448,459
Unamortized bond premium	439,348	-	439,348
Net pension liability	13,615,408	-	13,615,408
Bonds payable	15,393,087	-	15,393,087
Total noncurrent liabilities	38,256,451	718,508	38,974,959
Total liabilities	41,394,128	1,814,688	43,208,816
<u>Deferred Inflows of Resources</u>			
Deferred amounts related to pensions	59,215	-	59,215
<u>Net Position</u>			
Net investment in capital assets	40,758,388	9,512,977	50,271,365
Restricted for:			
Perpetual funds - nonexpendable	540,901	-	540,901
Perpetual funds - expendable	250,027	-	250,027
Other specific purposes	5,583,811	202,071	5,785,882
Unrestricted	(15,397,390)	11,717,733	(3,679,657)
Total net position	\$ 31,735,737	21,432,781	53,168,518

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2015

(Business-Type Activities Year Ended December 31, 2014)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities:							
General government	\$ 1,985,676	217,704	181,339	54,963	(1,531,670)	-	(1,531,670)
Public safety	3,909,119	1,020,581	37,928	-	(2,850,610)	-	(2,850,610)
Education	23,743,443	494,712	2,896,487	-	(20,352,244)	-	(20,352,244)
Public works	2,566,407	233,971	300,000	443,299	(1,589,137)	-	(1,589,137)
Human services	551,731	73,343	135,938	-	(342,450)	-	(342,450)
Recreation and culture	960,294	36,536	39,123	-	(884,635)	-	(884,635)
Interest on debt service	534,599	-	-	143,702	(390,897)	-	(390,897)
Total governmental activities	34,251,269	2,076,847	3,590,815	641,964	(27,941,643)	-	(27,941,643)
Business-type activities:							
Electric Light	12,545,382	13,812,948	-	-	-	1,267,566	1,267,566
Total business-type activities	12,545,382	13,812,948	-	-	-	1,267,566	1,267,566
Total government	\$ 46,796,651	15,889,795	3,590,815	641,964	(27,941,643)	1,267,566	(26,674,077)
General revenues:							
Property taxes					\$ 23,682,910	-	23,682,910
Excise taxes					1,912,969	-	1,912,969
Payments in lieu of taxes					141,932	-	141,932
Intergovernmental					544,588	-	544,588
Unrestricted investment earnings					14,876	730,939	745,815
Miscellaneous					35,910	-	35,910
Transfers					250,000	(250,000)	-
Total general revenues					26,583,185	480,939	27,064,124
Changes in net position					(1,358,458)	1,748,505	390,047
Net position - beginning of year, restated					33,094,195	19,684,276	52,778,471
Net position - end of year					\$ 31,735,737	21,432,781	53,168,518

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 8,844,522	4,545,591	13,390,113
Investments	-	771,039	771,039
Receivables:			
Property taxes	326,559	2,693	329,252
Tax liens and foreclosures	963,395	-	963,395
Motor vehicle excise	153,478	-	153,478
Departmental	13,722	644,322	658,044
Less: allowance for abatements	(118,378)	-	(118,378)
Less: allowance for uncollectibles	(52,444)	(294,097)	(346,541)
Due from other governments	-	45,257	45,257
 Total assets	 \$ <u>10,130,854</u>	 <u>5,714,805</u>	 \$ <u>15,845,659</u>
<u>Liabilities</u>			
Warrants and accounts payable	\$ 432,466	31,778	464,244
Other accrued liabilities	737,109	-	737,109
Notes payable	-	450,000	450,000
Other liabilities	-	30,307	30,307
 Total liabilities	 <u>1,169,575</u>	 <u>512,085</u>	 <u>1,681,660</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>1,163,817</u>	<u>352,918</u>	<u>1,516,735</u>
<u>Fund balances</u>			
Nonspendable	-	540,901	540,901
Restricted	465,192	4,448,138	4,913,330
Committed	1,385,700	-	1,385,700
Assigned	1,414,092	38,863	1,452,955
Unassigned	<u>4,532,478</u>	<u>(178,100)</u>	<u>4,354,378</u>
 Total fund balances	 <u>7,797,462</u>	 <u>4,849,802</u>	 <u>12,647,264</u>
 Total liabilities, deferred inflows of resources and fund balances	 \$ <u>10,130,854</u>	 <u>5,714,805</u>	 <u>15,845,659</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 23,627,389	183,103	23,810,492
Excise taxes	1,899,214	-	1,899,214
Payments in lieu of taxes	141,932	-	141,932
Departmental charges for services	321,009	1,379,248	1,700,257
Licenses and permits	493,758	-	493,758
Intergovernmental	3,489,249	1,138,358	4,627,607
Fines	22,910	-	22,910
Investment income	32,970	(18,092)	14,878
Other	3,651	180,058	183,709
Total revenues	<u>30,032,082</u>	<u>2,862,675</u>	<u>32,894,757</u>
Expenditures:			
Current:			
General government	1,313,984	1,068,239	2,382,223
Public safety	3,225,669	19,529	3,245,198
Education	18,779,820	1,021,015	19,800,835
Public works	1,830,201	602,809	2,433,010
Human services	407,662	94,048	501,710
Recreation and culture	479,072	109,281	588,353
Intergovernmental	407,561	-	407,561
Employee benefits	3,273,637	-	3,273,637
Other	140,755	-	140,755
Debt service	1,623,828	153,211	1,777,039
Total expenditures	<u>31,482,189</u>	<u>3,068,132</u>	<u>34,550,321</u>
Excess (deficiency) of revenues over expenditures	(1,450,107)	(205,457)	(1,655,564)
Other financing sources (uses):			
Operating transfers in	656,000	66,500	722,500
Operating transfers out	-	(472,500)	(472,500)
Total other financing sources (uses)	<u>656,000</u>	<u>(406,000)</u>	<u>250,000</u>
Net changes in fund balances	(794,107)	(611,457)	(1,405,564)
Fund balance, beginning of year	<u>8,591,569</u>	<u>5,461,259</u>	<u>14,052,828</u>
Fund balance, end of year	<u>\$ 7,797,462</u>	<u>4,849,802</u>	<u>12,647,264</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Position
Year Ended June 30, 2015

Total fund balances - governmental funds \$ 12,647,264

Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds. These
assets consist of:

Land and land improvements	6,882,290
Infrastructure assets	28,774,141
Buildings and building improvements	43,099,266
Construction in progress	355,649
Other capital assets	9,498,198
Accumulated depreciation	<u>(31,267,006)</u>

Total Capital Assets 57,342,538

Other long-term assets are not available to pay for current
period expenditures and, therefore, are deferred or are
not recognized in funds. 1,516,735

Deferred inflows related to pensions are not reported in funds. (59,215)

Long-term liabilities are not due and payable in the current
period and, therefore, are not reported in funds. These
liabilities consist of:

Accrued interest on bonds, net of subsidy	(185,727)
Bonds payable	(16,584,150)
Unamortized bond premium	(465,192)
Other post-employment benefits	(7,811,108)
Net pension liability	(13,615,408)
Landfill postclosure care costs	<u>(1,050,000)</u>

Total long-term liabilities (39,711,585)

Net position of governmental activities \$ 31,735,737

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Reconciliation of the Governmental Funds - Statement of Revenues,
Expenditures and Changes in Fund Balances To the Statement of Activities
Year Ended June 30, 2015

Net changes in fund balances - governmental funds **\$ (1,405,564)**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, these amounts are
recorded as capital assets and depreciated over their
estimated useful lives. This is the amount by which depreciation
is more than capital outlays and net retirements for the year. (707,953)

Bond proceeds provide financial resources and bond payments
are recorded as expenditures in governmental funds, while
these are recorded as increases or decreases to long-term
liabilities in the statement of net position. This is the amount by
which debt repayments are more than bond proceeds for the year. 1,201,063

Accrued interest is not recorded in governmental funds. This is
the amount by which net accrued interest changed during the year. 14,013

Bond premiums are recognized as revenue in the governmental funds
but are deferred in the statement of activities. 27,364

Landfill postclosure care costs are recorded as expenditures in
governmental funds while these are recorded as decreases
to long-term liabilities in the statement of net position. 152,500

Some expenses in the Statement of Activities do not require the use of
current financial resources and are not reported in the funds.

Change in net OPEB obligation (367,937)

Change in net pension liability (19,998)

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenue in the funds. (251,946)

Changes in net position of governmental activities **\$ (1,358,458)**

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances

Non-GAAP Budgetary Basis

Budget and Actual - General Fund

Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance To Final Budget Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 23,322,038	23,322,038	23,579,489	257,451
Excise taxes	1,625,000	1,625,000	1,899,214	274,214
Payments in lieu of taxes	135,000	135,000	141,932	6,932
Departmental charges for services	279,000	279,000	321,009	42,009
Licenses and permits	400,000	400,000	493,758	93,758
Intergovernmental	2,495,505	2,495,505	2,529,256	33,751
Fines	40,000	40,000	22,910	(17,090)
Investment income	9,000	9,000	27,894	18,894
Other	15,000	15,000	3,651	(11,349)
Total revenues	<u>28,320,543</u>	<u>28,320,543</u>	<u>29,019,113</u>	<u>698,570</u>
			(698,570)	22,698
Expenditures:				
General government	1,525,212	1,490,212	1,399,351	90,861
Public safety	3,838,632	3,838,632	3,763,906	74,726
Education	18,797,449	18,797,449	18,778,653	18,796
Public works	1,703,443	1,910,443	1,892,055	18,388
Human services	383,417	418,417	407,662	10,755
Recreation and culture	491,280	526,280	510,735	15,545
Debt service	1,623,572	1,623,572	1,621,572	2,000
Intergovernmental	407,561	407,561	407,561	-
Employee benefits	1,830,322	1,830,322	1,744,074	86,248
Insurance	145,755	145,755	140,755	5,000
Total expenditures	<u>30,746,643</u>	<u>30,988,643</u>	<u>30,666,324</u>	<u>322,319</u>
Excess (deficiency) of revenues over expenditures	<u>(2,426,100)</u>	<u>(2,668,100)</u>	<u>(1,647,211)</u>	<u>1,020,889</u>
Other financing sources (uses):				
Operating transfers in	1,117,000	1,117,000	1,121,000	4,000
Operating transfers out	(150,000)	(150,000)	(150,000)	-
Total other financing sources (uses)	<u>967,000</u>	<u>967,000</u>	<u>971,000</u>	<u>4,000</u>
Net changes in fund balances	<u>(1,459,100)</u>	<u>(1,701,100)</u>	<u>(676,211)</u>	<u>1,024,889</u>
Prior year close outs and adjustments			120,327	
Fund balance, beginning of year			5,091,675	
Fund balance, end of year			<u>4,535,791</u>	

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Net Position - Proprietary Fund

December 31, 2014

**Electric
Enterprise Fund****Assets**

Current assets:

Cash and cash equivalents - unrestricted	\$ 1,478,712
Cash and cash equivalents - restricted	173,939
Investments	8,811,878
User charges receivable, net	1,391,705
Other accounts receivable	135,820
Unbilled revenue	274,114
Inventory	537,309
Prepaid expenses	929,134
Other current assets	<u>1,881</u>

Total current assets 13,734,492

Noncurrent assets:

Capital assets, net	<u>9,512,977</u>
---------------------	------------------

Total noncurrent assets 9,512,977

Total assets \$ 23,247,469

Liabilities

Current liabilities:

Accounts payable	\$ 674,762
Customer deposits	174,311
Other current liabilities	<u>247,107</u>

Total current liabilities 1,096,180

Noncurrent liabilities:

Accrued compensated absences	81,157
Other post-employment benefits	<u>637,351</u>

Total noncurrent liabilities 718,508

Total liabilities 1,814,688

Net Position

Net investment in capital assets	9,512,977
Restricted	202,071
Unrestricted	<u>11,717,733</u>

Total net position \$ 21,432,781

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS**Statement of Revenues, Expenses and Changes in Net Position****Proprietary Fund****For the Year Ended December 31, 2014**

	<u>Electric Enterprise Fund</u>
Operating revenues:	
Charges for services	\$ 13,481,842
Other operating revenues	<u>331,106</u>
Total operating revenues	<u>13,812,948</u>
Operating expenditures:	
Purchased power and production	9,905,536
Other operating expenses	2,078,726
Depreciation	<u>561,120</u>
Total operating expenditures	<u>12,545,382</u>
Operating income	<u>1,267,566</u>
Nonoperating revenues (expenses):	
Interest income	730,939
Payment in lieu of taxes	<u>(250,000)</u>
Total nonoperating revenues (expenses)	<u>480,939</u>
Changes in net position	1,748,505
Net position, beginning of year	<u>19,684,276</u>
Net position, end of year	\$ <u><u>21,432,781</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTSStatement of Cash Flows - Proprietary Fund
Year Ended December 31, 2014

	Electric Enterprise Fund
Cash flows from operating activities:	
Cash received from customers	\$ 13,867,303
Cash paid to suppliers	(10,572,409)
Cash paid to employees	(1,435,829)
Payment in lieu of taxes (operating transfer)	<u>(250,000)</u>
Net cash provided by operating activities	<u>1,609,065</u>
Cash flows from investing activities:	
Interest on deposits and investments	730,939
Purchase and sales of investments (net)	<u>(684,383)</u>
Net cash provided by capital and related financing activities:	<u>46,556</u>
Cash flows from capital and related financing activities:	
Capital expenditures	<u>(793,050)</u>
Net cash provided by capital and related financing activities:	<u>(793,050)</u>
Net increase in cash and cash equivalents	862,571
Cash and cash equivalents, beginning of year	<u>790,080</u>
Cash and cash equivalents, end of year	\$ <u><u>1,652,651</u></u>
Reconciliation of operating income to net cash provided	
By operating activities:	
Operating income (loss)	\$ 1,267,566
Depreciation, bad debts & reserve	561,120
Payment in lieu of taxes (operating transfer)	(250,000)
Decrease in accounts receivable	29,110
Decrease in unbilled revenue	172
(Increase) in inventory	(151,413)
(Increase) in prepaid expenses	(13,478)
Decrease in other assets	145,779
(Decrease) in accounts payable	(74,557)
Increase in customer deposits	25,073
Increase in other current liabilities	7,929
Increase in OPEB liability	53,078
Increase in other liabilities	<u>8,686</u>
Net cash provided by operating activities	\$ <u><u>1,609,065</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Net Position

Fiduciary Funds

June 30, 2015

	<u>OPEB Trust Fund</u>	<u>Agency</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents - unrestricted	-	364,679	364,679
Investments	671,498	-	671,498
Receivables:			
Departmental	\$ -	42,312	42,312
Total assets	<u>671,498</u>	<u>406,991</u>	<u>1,078,489</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	-	15,598	15,598
Other Liabilities	\$ -	391,393	391,393
Total liabilities	<u>-</u>	<u>406,991</u>	<u>406,991</u>
<u>Net Position</u>			
Held in trust for retiree insurance benefits	<u>671,498</u>	<u>-</u>	<u>671,498</u>
Total net position	<u>\$ 671,498</u>	<u>-</u>	<u>671,498</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Changes in Fund Net Position

Fiduciary Funds

For the Year Ended June 30, 2015

	OPEB Trust Fund
<u>Additions</u>	
Contributions:	
Employer	\$ <u>645,585</u>
Total contributions	<u>645,585</u>
Investment income:	
Interest	<u>25,913</u>
Total investment income	<u>25,913</u>
Total additions	<u>671,498</u>
<u>Deductions</u>	
Benefits	<u>-</u>
Total deductions	<u>-</u>
Change in net position held in trust for retiree insurance benefits	671,498
Net position - beginning of year	<u>-</u>
Net position - end of year	\$ <u><u>671,498</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies

A. Introduction

The Town of Middleton was incorporated in 1728 under the statutes of the Commonwealth of Massachusetts. The Town operates with a selectmen-open Town meeting form of government and an elected five member Board of Selectmen. The Town provides general municipal services including public safety, education, public works, health, culture and recreation. Electric service is provided on an enterprise basis. The Town's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the standard setting body for governmental accounting and financial reporting.

B. Financial Reporting Entity

GAAP requires that the accompanying financial statements present the Town (primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. In determining the financial reporting entity, the Town considered all potential component units and found that none exist.

Joint Ventures:

The Town is a participant in the Masconomet Regional School District (the District). The District was created as a separate political subdivision of the Commonwealth to provide education to students in grades seven through twelve, from the Towns of Middleton, Topsfield and Boxford. The District is governed by a thirteen member board composed of School Committees of member Towns. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for fiscal year 2015 was \$8,283,321, which represents approximately 35% of the District's operating budget. A copy of the District's financial statement is available from the Superintendent's Office, 20 Endicott Road, Topsfield, MA 01983.

The Town is a member of the Essex North Shore Agricultural and Technical School District (the District). The District was created as a separate political subdivision of the Commonwealth to provide vocational technical education to students in grades nine through twelve, from the Town and other communities. The District is governed by a School Committee composed of one representative from each Town. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for 2015 was \$343,723, which represents 3.2% of the operating budget. A copy of the financial statement is available from the Superintendent's Office, 565 Maple Street Hathorne, MA 01937.

C. Financial Statement Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2015 (except for the Electric Enterprise Fund which is as of and for the year ended December 31, 2014). The accounting policies of the Town conform to GAAP.

D. Government-wide and Fund Financial Statements

The Town's basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report information on all the non-fiduciary activities of the Town. For the most part, the effect of interfund activities has been removed from these statements.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies (continued)

D. Government-wide and Fund Financial Statements (continued)

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or others who purchase, use or directly benefit from goods services, or privileges provided by a certain function and 2) grants and contributions restricted to meeting the operational or capital requirements of a function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary fund and fiduciary funds, even though the latter are excluded from the government-wide financial statements. GAAP requires that major individual governmental funds and major individual enterprise funds be reported as separate columns in the fund financial statements. The Town's general and electric funds are reported as major funds. The Town reports the following fund financial statements:

Governmental Funds

General Fund - This fund is the Town's primary operating fund. This accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Other Governmental Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Electric Enterprise Fund - This fund is used to account for the Town's electric operations.

Fiduciary Funds

Agency Funds - These funds are used to report resources held by the Town in a purely custodial capacity (assets equal liabilities).

OPEB Trust Fund - This fund is used to record assets set aside for future use related to the Town's Other Post-Employment Benefits (OPEB) liability.

E. Measurement Focus and Basis of Accounting

The government-wide, propriety, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and propriety fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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. The Town considers revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes and interest associated with the current fiscal year are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, however, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

a. Deposits and Investments

State statutes place limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. The Town, with certain restrictions, can also purchase obligations of U.S. Government or its agencies, repurchase agreements, money market funds and units of the Massachusetts Municipal Depository Trust (MMDT), an investment pool established by the State Treasurer. In addition, certain other governmental funds have other investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

The Town pools cash to facilitate the management of cash. Each fund presents its pro rata share of the combined cash account as cash and cash equivalents in the accompanying basic financial statements. The Town has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent and deposits with the MMDT. Investments are reported at fair value.

b. Property Taxes

The Town is responsible for assessing and collecting property taxes in accordance with enabling state laws. Property taxes are determined, each year, on the full and fair cash value of taxable properties as of January 1st. The tax levy is divided into two billings and is payable on a quarterly basis. The first billing is an estimate of the current year's levy based on the prior year's taxes. 50% is due on August 1st and 50% is due on November 1st. The second billing reflects adjustments to the current year's actual levy with 50% due on February 1st and 50% due on May 1st. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivable in the fiscal year billed.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2 1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2 %, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote.

c. Inventories

The costs of inventories are not material and the purchase method is used in all funds except for the electric enterprise fund. The electric enterprise fund uses the average cost method of recording inventory for materials and supplies.

d. Capital Assets

Most capital assets are reported at cost or estimated historical cost. Donated assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the roadways and curbing assets that were acquired or that received

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

d. Capital Assets

substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. Normal maintenance and repairs that do not materially add to the value or life of the asset are not capitalized. Capital assets are defined by the Town as assets with an individual cost of more than \$10,000 and an estimated life in excess of three years. Such assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>	<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30	Vehicles and equipment	3 - 10
Buildings	40	Infrastructure	30 - 100
Building improvements	7 - 20		

e. Compensated Absences

The liability for compensated absences reported in the business type activities and proprietary fund statements consist of unpaid, accumulated vacation and certain sick leave absences. For vacation, this liability is recognized when the associated benefit has been earned. For sick leave benefits, a liability is recognized when the benefit (primarily sick leave buy back benefits) is fully vested. For governmental activities, the liability for compensated absences is not material and is therefore not reported in the accompanying financial statements.

f. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the entity wide and governmental fund statements may present deferred outflow and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an outflow (expense/expenditure) at that time. Deferred inflows of resources represents acquisition of net position that applies to a future period and will be recognized as an inflow (revenue) at that time. In the entity wide and proprietary fund statements, the Town has recorded certain amounts related to the net pension liability as deferred inflows of resources. In the government fund statements, the Town has recorded unavailable revenue as deferred inflows of resources since the related revenue is not available until a future period.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are (if material) deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

h. Pensions

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 Essex Regional Retirement System (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

i. Other Post-Employment Benefits

In additions to pensions, the Town provides health and life insurance benefits for current and future retirees and their spouses.

j. Fund Balances - Governmental Funds

In the governmental fund financial statements, fund balance is divided into five categories - nonspendable, restricted, committed, assigned and unassigned. Presented below is a discussion of each GASB 54 fund balance classification.

Nonspendable - Amounts that cannot be spent because they are either not in spendable form or must be kept intact for legal or contractual reasons. This category is utilized mainly for permanent fund principal and also includes (if applicable) prepaid expenses, inventory and long term portion of loans receivable (unless the purpose is restricted, committed or assigned).

Restricted - Amounts constrained to specific purpose by external parties, enabling legislation and constitutional provision. Enabling legislation means the government is authorized to collect revenue and other parties (citizens, courts) can compel the government to spend the funds only on the authorized purpose.

Committed - Amounts constrained to specific purpose by the highest level of decision making authority (Town Meeting) and can be changed only by the same action.

Assigned - Amounts intended for a specific purpose by the Selectmen, Town Committee or Town management but do not meet the criteria to be classified as restricted or committed.

Unassigned - The residual classification of the Town's general fund only (and residual deficits in other governmental funds).

Restricted fund balance in the general fund includes \$465,192 in bond premium reserve. Committed fund balance is created from Town Meeting action and must be uncommitted by similar action. Committed fund balance in the general fund represents \$1,385,700 committed for next year's budget. Assigned fund balance is created primarily from authorized actions of the Board of Selectmen or Town management. General fund assigned fund balance includes encumbrances and article carry forwards of \$1,414,092. Unassigned fund balance in the general fund includes \$1,725,063 of general stabilization fund balance. Stabilization funds are obtained by Town Meeting authorization and are almost exclusively generated from transfers from the general fund budget. These funds are set aside for extraordinary or unforeseen purposes, must

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

j. Fund Balances - Governmental Funds (continued)

be approved by Town Meeting and can be utilized for any lawful purpose. A more detail listing of governmental fund balances appears in Note 8.

The Town's policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year via adjusting journal entries. Non-general funds may have negative unassigned fund balances when non-spendable amounts plus restricted, committed and assigned fund balances exceed the total positive fund balance in a fund. The Town's fund balance policy sets a reserve goal at 5% - 10% of general fund operating expenditures. This is updated and reviewed each year as part of the budget process. Reserves are defined as general fund unassigned fund balance and do not include stabilization fund balance.

k. Net Position

Net position appears in the Town's proprietary (enterprise) funds and the entity wide financial statements. Net position is the difference between assets and liabilities. Net investment in capital assets represent capital assets less accumulated depreciation and outstanding debt. Restricted net assets consist of net position with constraints placed on the use either by grantors, creditors, contributors or laws and regulations of other governments or by constitutional provisions or enabling legislation.

l. Use of Estimates

In preparing the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Budgetary Information

Under the Town's by-laws, budget requests are prepared by Town departments and submitted to the Selectmen and Finance Committee for review. The Selectmen and the Finance Committee have until May, when the Town meeting is held, to make their recommendations regarding department requests. After approval of the budget at the annual Town meeting, the tax recapitulation sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval. This process should generally be completed by November so the actual tax bills can be mailed by January 1, due and payable by the taxpayer on February 1.

The Town must establish its tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, state and county assessments, and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenues and transfers projected to be received by the Town, including available funds. The final Town budget as presented in the budget to actual statement was developed as follows:

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 2. Budgetary Information (continued)

Expenditures and transfers out	<u>\$31,138,643</u>
To be funded as follows:	
Budgeted revenue	\$28,320,543
Transfers from other funds	1,117,000
Allocation of surplus	<u>1,701,100</u>
Total funding (resources)	<u>\$31,138,643</u>

The Town's general fund budget is prepared on a basis other than GAAP. The "actual" results column of the Statement of Revenues, Expenditures and Changes in Fund Balance (Non-GAAP Basis) Budget and Actual - General Fund is presented on a "budgetary basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are:

- a. Property tax revenues are recorded when the cash is received as opposed to when susceptible to accrual (GAAP);
- b. Encumbrances and continuing appropriations are recorded as expenditures (budgetary) as opposed to a reservation of fund balance (GAAP);
- c. On behalf payments for state teacher's retirement system and water pollution trust debt are recognized for GAAP only; and
- d. Stabilization funds are not part of the general fund for budgetary purposes.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the general fund for the year ended June 30, 2015:

Net changes in fund balances - Budgetary Basis	(\$676,211)
Adjustments:	
Record Revenues on a Modified Accrual Basis	\$47,900
On Behalf Payments, Net (Gross of \$1,051,709)	-
Stabilization Fund Activity	(\$855,508)
Adjustment for Encumbrances and Continuing Articles	<u>\$689,712</u>
Net changes in fund balances - GAAP Basis	<u>(\$794,107)</u>

Within the adopted budget a sum is allocated to provide funding for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from this reserve fund. Any other modifications to the budget would require action by Town Meeting.

Note 3. Deposits and Investments

[Note: As certain amounts are pooled in Town funds, the amounts below for cash and investments represent total Town amounts as of June 30, 2015. The difference between the amounts below and the amounts in the financial statements are due solely to the light department being presented as of December 31, 2014. No significant changes to light department deposits and investments occurred between December 31, 2014 and June 30, 2015.]

Cash Deposits

Custodial risk on cash deposits is the risk that in the event of a depository failure, the Town will not be able to recover the value of its deposits or collateral securities that are in the possession of the

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 3. Deposits and Investments (continued)

depository. The Town's attempts to limit custodial risk by placing funds in a variety of financial institutions and maximizing amounts insured or collateralized. At June 30, 2015, the Town's carrying amount of deposits was \$13,354,562 and the bank balance was \$13,595,008. The difference between the carrying and bank balances is due mostly to outstanding checks. Of the bank balances, \$6,471,807 was covered by Federal Deposit Insurance Corporation or other state insurance and \$2,520,719 was collateralized. The remaining amount of \$4,602,482 was neither insured nor collateralized.

Investments

At June 30, 2015, the Town's investment balances were as follows (note that money market funds and MMDT deposits are recorded as cash equivalents in the financial statements):

<u>Type of Investment</u>	<u>Fair Value</u>
US government and agency securities	\$4,427,437
Other fixed income securities	1,820,606
Mutual funds	1,122,730
Domestic Stock	2,898,798
Pooled Investments: Money market funds	349,005
External Investment Pool: MMDT	<u>2,050,694</u>
Total investments	<u>\$12,669,270</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party 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 an investment policy covering custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have an investment policy covering interest rate risk. US government and agency securities investments have the following maturities: \$60,184 less than one year, \$79,809 between one and two years, \$74,072 between three and five years, and \$4,213,373 thereafter. Other fixed income securities have maturities of \$50,004 less than one year, \$530,436 between three and five years and \$1,240,167 thereafter.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The US government and agency securities investments are rated Aaa and AA by Moody's Investor Services and AAA and AA by Standard and Poor's and are not considered to have credit risk. MMDT, equities securities and money market funds are not rated as to credit risk. The Town does not have an investment policy which would limit its investment choices as to credit risk.

Concentration of credit risk – The Town does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding US federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental funds or governmental activities.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2015 (electric enterprise fund as of December 31, 2014) was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$4,135,614	905,594	-	5,041,208
Construction in progress	<u>355,649</u>	<u>=</u>	<u>=</u>	<u>355,649</u>
Total capital assets not being depreciated	<u>4,491,263</u>	<u>905,594</u>	<u>=</u>	<u>5,396,857</u>
Capital assets being depreciated:				
Land and land improvements	1,790,912	50,170	-	1,841,082
Buildings and improvements	43,099,266	-	-	43,099,266
Equipment	8,959,049	549,149	10,000	9,498,198
Infrastructure	<u>28,134,549</u>	<u>639,592</u>	<u>=</u>	<u>28,774,141</u>
Total capital assets being depreciated	<u>81,983,776</u>	<u>1,238,911</u>	<u>10,000</u>	<u>83,212,687</u>
Less accumulated depreciation for:				
Land and land improvements	(834,753)	(52,345)	-	(887,098)
Buildings and improvements	(8,330,780)	(1,735,420)	-	(10,066,200)
Equipment	(7,026,148)	(422,771)	(10,000)	(7,438,919)
Infrastructure	<u>(12,232,867)</u>	<u>(641,922)</u>	<u>=</u>	<u>(12,874,789)</u>
Total accumulated depreciation	<u>(28,424,548)</u>	<u>(2,852,458)</u>	<u>(10,000)</u>	<u>(31,267,006)</u>
Capital assets being depreciated, net	<u>53,559,228</u>	<u>(1,613,547)</u>	<u>=</u>	<u>51,945,681</u>
Total governmental activities capital assets, net	<u>\$58,050,491</u>	<u>(707,953)</u>	<u>=</u>	<u>57,342,538</u>
Depreciation expense was charged to functions as follows:		<u>Governmental Activities</u>		
General government		\$58,004		
Public safety		237,021		
Education		1,519,532		
Public works		816,725		
Human services		5,278		
Recreation and culture		<u>215,898</u>		
Total governmental activities depreciation expense		<u>\$2,852,458</u>		
Business-type activities:				
Capital assets not being depreciated:				
Land and land improvements	<u>327,323</u>	<u>=</u>	<u>=</u>	<u>327,323</u>
Total capital assets not being depreciated	<u>327,323</u>	<u>=</u>	<u>=</u>	<u>327,323</u>
Capital assets being depreciated:				
Buildings and improvements	1,197,231	52,687	-	1,249,918
Equipment	2,317,399	31,341	2,500	2,346,240
Infrastructure	<u>15,544,186</u>	<u>709,022</u>	<u>89,400</u>	<u>16,163,808</u>
Total capital assets being depreciated	<u>19,058,816</u>	<u>793,050</u>	<u>91,900</u>	<u>19,759,966</u>
Less accumulated depreciation for:				
Buildings and improvements	(505,677)	(23,945)	-	(529,622)
Equipment	(1,594,394)	(99,131)	(2,500)	(1,691,025)
Infrastructure	<u>(8,005,021)</u>	<u>(438,044)</u>	<u>(89,400)</u>	<u>(8,353,665)</u>
Total accumulated depreciation	<u>(10,105,092)</u>	<u>(561,120)</u>	<u>(91,900)</u>	<u>(10,574,312)</u>
Capital assets being depreciated, net	<u>8,953,724</u>	<u>231,930</u>	<u>=</u>	<u>9,185,654</u>
Total capital assets, net	<u>9,281,047</u>	<u>231,930</u>	<u>=</u>	<u>9,512,977</u>

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 4. Capital Assets (continued)

	<u>Business-type Activities</u>
Depreciation expense was charged to functions as follows:	
Electric enterprise fund	\$ 561,120
Total business-type activities depreciation expense	<u>\$ 561,120</u>

Note 5. Short-term Debt

Subject to state laws, the Town is authorized to issue general obligation debt on a temporary basis. The following classes of short-term loans can be issued:

Tax anticipation notes (TANs) - This debt is issued to provide funding for operations during lean periods in a fiscal cycle. They are repaid from subsequent collections of taxes or other revenues.
Bond anticipation notes (BANs) - This debt is issued to provide initial funding for capital projects. They are redeemed from the proceeds from the sale of the bonds.
Grant anticipation notes (GANs) - This debt is issued to provide funding for projects in anticipation of reimbursement from federal or state grants. They are repaid from subsequent distributions from the federal or state agency.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Bond anticipation notes:				
Land purchase	\$-	450,000	=	450,000
	<u>\$-</u>	<u>450,000</u>	<u>=</u>	<u>450,000</u>

Note 6. Long-term Obligations

The following is a summary of the changes in the Town's long-term obligation for the year ended June 30, 2015 (beginning balances for governmental activities net pension liability adjusted for prior period restatement. Business-type activities are presented for year ended December 31, 2014):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities:					
Landfill post closure costs	\$1,202,500	-	152,500	1,050,000	52,500
Other post employment benefits	7,443,171	367,937	-	7,811,108	-
Unamortized bond premiums	492,556	-	27,364	465,192	25,844
Net pension liability	13,595,410	19,998	-	13,615,408	-
Bonds payable	17,785,213	=	1,201,063	16,584,150	1,191,063
	<u>40,518,850</u>	<u>387,935</u>	<u>1,380,927</u>	<u>39,525,858</u>	<u>1,269,407</u>
Business-type activities:					
Compensated absences	164,923	5,984	-	170,907	89,750
Other post employment benefits	584,273	53,078	-	637,351	-
Bonds payable	=	=	=	=	=
	<u>\$749,196</u>	<u>59,062</u>	<u>=</u>	<u>718,508</u>	<u>89,750</u>

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 7. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued for funding various special projects. All bond issues must be approved by Town meeting. Outstanding governmental activities bonds at June 30, 2015 are presented below.

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2015</u>
School Construction	11/15/15	2.0%-3.6%	\$680,000	-	350,000	\$330,000
Library	04/15/27	3.0%-4.6%	3,075,000	-	240,000	2,835,000
School Construction	08/15/32	2.3%-4.0%	13,490,000	-	525,000	12,965,000
Land Purchase	08/15/22	3.0%-4.0%	320,000	-	30,000	290,000
Title V	08/01/22	3.0%-5.25%	47,613	-	5,263	42,350
Title V	07/15/27	0%	14,000	-	1,000	13,000
Water	07/06/22	3.0%-5.25%	83,600	-	9,800	73,800
Water	11/15/15	2.0%-3.6%	<u>75,000</u>	-	<u>40,000</u>	<u>35,000</u>
Totals			<u>17,785,213</u>	=	<u>1,201,063</u>	<u>16,584,150</u>

Debt service requirements of the Town's outstanding indebtedness at June 30, 2015 are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities Principal</u>	<u>Governmental Activities Interest</u>	<u>Business-type Activities Principal</u>	<u>Business-type Activities Interest</u>	<u>Total Principal</u>	<u>Total Interest</u>
2016	\$1,191,063	536,729	-	-	1,191,063	536,729
2017	846,063	500,188	-	-	846,063	500,188
2018	866,063	469,435	-	-	866,063	469,435
2019	881,063	438,156	-	-	881,063	438,156
2020	896,063	409,713	-	-	896,063	409,713
2021 - 2025	4,755,835	1,517,534	-	-	4,755,835	1,517,534
2026 - 2030	4,453,000	735,752	-	-	4,453,000	735,752
2031 - 2035	<u>2,695,000</u>	<u>122,925</u>	=	=	<u>2,695,000</u>	<u>122,925</u>
Totals	<u>\$16,584,150</u>	<u>4,730,432</u>	=	=	<u>16,584,150</u>	<u>4,730,432</u>

Of the total governmental activities debt service requirements of \$21,314,582, the Town is scheduled to receive \$8,507 as reimbursement from the Commonwealth of Massachusetts Water Pollution Abatement Trust. None of this reimbursement is related to debt principal and therefore has not been recorded in the financial statements.

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Oversight Board. Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitations.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 7. Bonds Payable (continued)

As of June 30, 2015, the Town may issue approximately \$74,853,441 of additional general obligation debt under the normal debt limit. The Town has \$13,129,150 of issued debt exempt from the debt limit. At June 30, 2015, the Town also has authorized and unissued debt of \$7,603,709 for school, library, land acquisition and water projects.

In addition to the Town's outstanding debt, the Town is assessed its share of debt from other governmental entities (known as overlapping debt). For the Masconomet Regional School District, the Town's share of the Regional School's \$2,371,795 debt at June 30, 2015 (based on current assessment percentages) is 35.39% or \$839,378. For the Essex North Shore Agricultural and Technical School District, the Town's share of the Regional School's \$31,090,000 debt at June 30, 2015 (based on current assessment percentages) is 2.94% or \$914,357.

Note 8. Governmental Fund Balances

The detailed breakdown of fund balances for the Town's governmental funds appears below.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Permanent fund principal	\$ -	540,901	540,901
Restricted:			
Bond premium reserve	465,192	-	465,192
Permanent fund spendable amounts	-	250,027	250,027
Community preservation act projects	-	525,273	525,273
Preschool and child care programs	-	345,046	345,046
Other revolving funds	-	414,533	414,533
EMS/Ambulance services	-	706,351	706,351
Water revolving	-	852,123	852,123
Cable access	-	577,719	577,719
Other purposes - special revenue	-	777,066	777,066
Committed:			
Next year's budget	1,385,700	-	1,385,700
Assigned:			
Gifts and donations	-	38,863	38,863
Public safety encumbrances	699,171	-	699,171
School encumbrances	310,438	-	310,438
Public works	186,983	-	186,983
Other encumbrances	217,500	-	217,500
Unassigned:			
Other capital projects	-	(178,100)	(178,100)
General stabilization	1,725,063	-	1,725,063
General fund residual balance	<u>2,807,415</u>	-	<u>2,807,415</u>
Total governmental fund balances	<u>\$7,797,462</u>	<u>4,849,802</u>	<u>12,647,264</u>

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 9. Inter-fund Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Transfers are typically made to offset the cost of budgeted items in the general fund or to set aside funds for future use. For the year ended June 30, 2015, the general fund transferred \$150,000 to the stabilization fund and the stabilization fund transferred \$465,000 to the general fund. The general fund also received transfers of \$350,000 from ambulance revolving, \$13,500 from fire alarm revolving, \$11,500 from council on aging revolving, \$7,000 from the unemployment fund, \$24,000 from other special revenue funds and \$250,000 from the electric enterprise fund. Stabilization fund transfers appear only in the budgetary statement as the stabilization fund is included in the general fund based on the requirements of GASB 54.

Note 10. Pension Plans

Town employees participate in two cost sharing, multiple employer defined benefit plans. The systems are funded by contributions from participants, employer contributions and/or state appropriations. These systems are the Essex Regional Retirement System, which covers most non-teaching employees of the Town and the Massachusetts Teachers Retirement System, which covers most teaching employees.

Essex Regional Retirement System:

Plan Description: Town employees are provided with pensions through the Essex Regional Retirement System, a cost sharing, multiple employer defined benefit plans administered by the Essex Regional Retirement Board and regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). Chapter 32 of the Massachusetts General Laws (MGL) grants the authority to establish and amend benefit terms. The System issues an annual public report that can be obtained at essexregional.com.

Benefits Terms: Membership in the System is mandatory for all full-time employees and non-seasonal employees who, in general, regularly work more than twenty hours per week.

The System provides retirement, disability and death benefits. Retirement benefits are determined as follows. For employees hired prior to April 2, 2012, it is 2.5% of the employee's final three year average compensation multiplied by the employee's years of service (a percentage lower than 2.5% is used if the employee retires prior to full retirement age which is normally 65). For employees hired on or after April 2, 2012, it is 2.5% of the employee's final five year average compensation multiplied by the employee's years of service (a percentage lower than 2.5% is used if the employee retires prior to full retirement age which is normally 67). Employees may elect early retirement after 20 years of service or at any time after attaining age 55 (age 60 if hired on or after April 2, 2012) with 10 years eligible service.

System members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. Disability benefits are based on a number of factors, including the member's age, compensation, veteran status, years of service and whether or not the disability is work related. In addition, certain death benefits exist for beneficiaries who die in active service.

Cost of living adjustments (COLAs) granted between 1981 and 1997 are the responsibility of the Commonwealth. Beginning in 1998, funding COLAs became the responsibility of the System.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 10. Pension Plans (continued)

Contributions: Chapter 32 of MGL governs the contributions of plan members and member employers. Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1998. The Town's contribution reflects its share of the system-wide actuarial determined contribution, in accordance with Chapter 32 Section 22D of MGL, apportioned among all System employers based on an annual employer normal cost and amortization payments to pay the unfunded net pension liability in full by fiscal year 2035. Contributions to the System by the Town for the year ended June 30, 2015 were \$1,258,143.

Return of Contributions: Employee contributions may be returned to the participants upon leaving Town employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

Net Pension Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Town reported a liability of \$16,640,684 for its proportionate share of the net pension liability (the amount reported in the financial statements is different solely due to the presentation of the light enterprise fund as of December 31, 2014). The net pension liability was measured at December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to December 31, 2014. There were no material changes made in this update to the actuarial assumptions or to the retirement terms since the last actuarial valuation. 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 members, actuarially determined. At December 31, 2014, the Town's proportion was 4.905%.

For the year ended June 30, 2015, the Town recognized pension expense of \$1,282,584. At June 30, 2015, the Town reported deferred inflows of \$72,372 for the net difference between projected and actual investment earnings. This amount will be recognized in pension expense as follows:

Fiscal year ended June 30:	
2016	\$18,093
2017	\$18,093
2018	\$18,093
2019	\$18,093
2020	-
Thereafter	-

Actuarial Assumptions: The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	3 percent, including longevity
Investment rate of return	8 percent, net of pension plan investment expense, including inflation

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 10. Pension Plans (continued)

Mortality rates were based on the RP-2000 Mortality Table projected to 2014 with Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward two years. The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2012 through December 31, 2013.

The long-term rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expenses and inflation) 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 and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	18%	4.61% - 4.85%
International developed equity	16%	5.1%
Emerging market equity	6%	6.31%
Core fixed income	13%	0.97%
High-yield fixed income	10%	3.8%
Private equity	10%	6.55%
Real estate	10%	3.4%
Commodities	4%	3.64%
Hedge funds	9%	3.64%
Cash/Other	4%	0.0%
Total	<u>100%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that contributions will be made at the actuarially determined contribution rate. Based on those assumptions, the System's fiduciary 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.

Sensitivity of the Town's 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 of the System calculated using the discount rate of 8.0%, 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>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
\$20,568,071	\$16,640,684	\$13,480,507

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a separately available audited financial statement available at essexregional.com. The System's fiduciary net position was determined using the accrual basis of accounting.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 10. Pension Plans (continued)

Massachusetts Teachers' Retirement System:

The Commonwealth of Massachusetts contributes, on behalf of the Town of Middleton, to the Massachusetts Teachers' Retirement System (MTRS) a cost-sharing multiple employer defined benefit plan with a special funding situation. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management is invested in the Massachusetts Teacher's Retirement Board (MTRB), which consists of seven members – two are elected by MTRS members, one is chosen by the six other members, the State Auditor (or designee), the State Treasurer (or designee) a member appointed by the Governor and the Commissioner of Education (or designee) who serves ex-officio as the Chairman of the MTRB.

The Commonwealth, a non-employer contributor, funds the plan through appropriations. Under MGLs, the Town is not required to contribute to the plan, which means that the Town is considered to be in a special funding situation under GASB 68. MTRS funding policies have been established by Chapter 32 of the Massachusetts General Laws (MGLs). The Commonwealth legislature has the authority to amend these policies. For the fiscal year ended June 30, 2014 (measurement date) the Commonwealth contributed \$937,379,260 to the plan. The Town's proportionate share of these contributions was \$812,899 (0.086720%).

At June 30, 2015, the Town reported no liability for its proportionate share of the net pension liability, as the Commonwealth provides 100% support to the Town through its appropriation to the MTRS. 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 members, actuarially determined. The total portion of the net pension liability that was associated with the Town and supported by the Commonwealth was \$13,785,388 (.086720%). As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2014 (measurement date) was 0%.

For the year ended June 30, 2015, the Town recognized pension expense of \$957,737 and revenue of \$957,737 for support provided by the Commonwealth. At June 30, 2015, the Town reported no deferred outflows and no deferred inflows of resources related to this pension plan.

MTRS provides certain financial information at mass.gov/mtrs, but does not issue stand-alone financial statements. Detailed information about the pension plan's fiduciary net position and other related matters is available in the Commonwealth of Massachusetts audited financial statement available at mass.gov/osc.

Note 11. Other Post-Employment Benefits (OPEB)

The Town implemented GASB 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, for the 2009 financial statements. As allowed by GASB 45, the Town established the net OPEB obligation at zero for the beginning of fiscal year 2009 and has applied the measurement and recognition requirements of GASB 45 on a prospective basis for 2009 through 2015.

Town of Middleton, Massachusetts

Notes to the Financial Statements

June 30, 2015

Note 11. Other Post-Employment Benefits (OPEB) continued

Plan Description - The Town provides health and life insurance coverage for its retirees and their survivors as a single-employer defined benefit Other Post-Employment Benefits Plan (the Plan). The plan was established in accordance with Massachusetts General Law Chapter 32B, to employees who retire in accordance with various predetermined years of service and under various age requirements. Changes to plan design and contribution rates must be negotiated through the collective bargaining process.

As of July 1, 2014 (the most recent valuation date), the number of Plan participants is as follows:

Active employees	231
Retirees and beneficiaries	<u>75</u>
Total	<u>306</u>

Funding Policy - Contribution requirements are negotiated as part of the collective bargaining process. Currently, members receiving these benefits contribute 40% of plan cost. The cost of administering the plan is paid for by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with GASB 45 parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the Town's annual OPEB cost for the year, the actual contribution to the plan and changes to the Town's net OPEB obligation are presented in the following table.

Normal cost	\$732,270
Amortization of unfunded actuarial accrued liability	<u>610,577</u>
Annual required contributions	1,342,847
Interest on net OPEB obligation	321,099
Adjustment to annual required contribution	(446,373)
Amortization of actuarial gains (losses)	<u>196,554</u>
Annual OPEB cost	1,414,127
Expected employer contributions	(349,714)
Additional employer contributions	<u>(643,398)</u>
Increase (decrease) in net OPEB obligation	421,015
Net OPEB obligation - beginning of year	<u>8,027,444</u>
Net OPEB obligation - end of year	<u>\$8,448,459</u>

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

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 11. Other Post-Employment Benefits (OPEB) continued

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$1,414,127	70%	\$8,448,459
6/30/2014	\$1,536,746	28%	\$8,027,444
6/30/2013	\$1,467,050	27%	\$6,925,224

Funding Status and Funding Progress - The funded status of the plan at July 1, 2014, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage Of Covered Payroll ((B-A)/C)</u>
7/1/2014	\$0	\$13,216,570	\$13,216,570	0%	\$11,367,278	116%
7/1/2012	\$0	\$13,926,650	\$13,926,650	0%	\$10,264,357	136%

The actuarial valuation of an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding funding status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 employer 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.

The following additional information is provided as of the latest actuarial valuation:

- Valuation date July 1, 2014
- Actuarial cost method Projected unit credit
- Amortization method 30 years, level dollar
- Remaining amortization period 23 years, as of June 30, 2015
- Interest discount rate 4%
- Medical cost trend 5%

Note 12. Light Department Commitments (as of December 31, 2014)

The Light Department (Department) is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC). MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 12. Light Department Commitments (as of December 31, 2014)

supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other Utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make payment when due, other Projects Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated General Bond Resolution with respect to the bonds of that project. The MMWEC revenues derived from each Project is used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of FPL Energy Wyman IV, LLC, an indirect subsidiary of NextEra Energy Resources, LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) the majority owner and indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for Unit 3 extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook Resources, LLC, the majority owner and indirect subsidiary of Next Era Energy Resources, LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has stated its intention to request an extension of the Seabrook Station operating license for an additional twenty years.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the Act has been renewed several times. In July, 2005, as part of the Energy Policy Act of 2005, Congress extended the Price-Anderson Act through the end of 2025.

The Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 12. Light Department Commitments (as of December 31, 2014)

obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

As of December 31, 2014, total capital expenditures for MMWEC's projects amounted to \$1,616,889,000, of which \$39,193,000 represents the amount associated with the Department's Project Capability of the projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds \$167,110,000, of which \$4,575,000 is associated with the Department's share of Project Capability of the projects in which it participates, although such amount is not allocated to the Department. As of December 31, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$184,002,000, of which \$5,064,000 is anticipated to be billed to the Department in future years.

The estimated aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2014 and estimated for future years is shown below.

For years ended December 31,	2015	\$ 1,635,000
	2016	\$ 1,564,000
	2017	\$ 1,518,000
	2018	\$ 40,000
	2019	\$ 307,000
	Total	<u>\$ 5,064,000</u>

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$3,643,000 and \$3,783,000 for the years ended December 31, 2014 and 2013, respectively.

The Department purchases its power through contracts through MMWEC and other power suppliers. These contracts are subject to certain market factors. Based on current market conditions, the Department anticipates some stability to its power cost expenses over the next few years.

Note 13. Landfill Closure and Post Closure Care Costs

State and Federal regulations require that the Town place a final cover on its landfill after the landfill is closed and also to perform certain ongoing maintenance and monitoring for thirty years after closure. The Town's landfill is closed and the closure project is complete. The Town plans to fund post closure testing and monitoring costs, estimated at \$240,000 over the remaining twelve years, from its annual tax levy. This estimated liability, which is subject to change due to inflation, technology and applicable regulations, is presented in the Statement of Net Position.

Town of Middleton, Massachusetts

Notes to the Financial Statements

June 30, 2015

Note 13. Landfill Closure and Post Closure Care Costs (continued)

In addition, during fiscal year 2009, the Town acquired a certain parcel of land that was formerly used as a landfill. The Town received a lump sum payment for taking ownership of this property. The Town plans to fund post closure testing and monitoring costs, estimated at \$460,000 over the next twenty three years, from its annual tax levy. This estimated liability, which is subject to change due to inflation, technology and applicable regulations, is presented in the Statement of Net Position.

Finally, the Town acquired a parcel of land that was a former Town landfill. This landfill has been capped and closed for many years. The Town plans to fund post closure testing and monitoring costs, estimated at \$350,000 over the next twenty eight years, from its annual tax levy. This estimated liability, which is subject to change due to inflation, technology and applicable regulations, is presented in the Statement of Net Position.

Note 14. Risk Management

Lawsuits may be pending or threatened against the Town, which arise from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Town estimates that potential claims against the Town, not covered by insurance, resulting from such litigation, would not materially affect the financial statements.

The Town receives some financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and may be subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Town, although the Town expects that these amounts, if any, would be immaterial to the financial statements.

Note 15. Restatement of Beginning Fund Balances

In 2015, the Town implemented GASB Statement #68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement #71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The implementation of this statement required that the Town record the beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period. As a result, beginning net position for governmental activities was restated and decreased by \$13,654,625. As the light plant enterprise fund is presented as of December 31, 2014, no pension liability was recorded but will be recorded for next year's financial statements.

Note 16. Implementation of new GASB Statements

During fiscal year 2015, the Town implemented the following GASB pronouncements:

- GASB Statement #68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015. This statement had a significant impact on the Town's financial statements due to the recording of its proportional share of the regional retirement system's net pension liability.

Town of Middleton, Massachusetts
Notes to the Financial Statements
June 30, 2015

Note 16. Implementation of new GASB Statements (continued)

- GASB Statement #69 – *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015. This statement did not have any impact on the Town's financial statements.
- GASB Statement #71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, which is required to be implemented in fiscal year 2015. This was implemented in conjunction with Statement #68, as noted above.

In future fiscal years, the Town will implement the following GASB pronouncements:

- GASB Statement #72 – *Fair Value and Measurement*, which is required to be implemented in fiscal year 2016. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2016 (and parts in 2017). The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #74 – *Financial Reporting for Post Employment Benefits Plans Other than Pension Plans*, which is required to be implemented in fiscal year 2017. This statement will have no impact on the Town's financial statements.
- GASB Statement #75 – *Accounting and Financial Reporting for Post Employment Benefits Plans Other than Pensions*, which is required to be implemented in fiscal year 2017. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #76 – *The Hierarchy of GAAP for State and Local Governments*, which is required to be implemented in fiscal year 2016. This statement will have no impact on the Town's financial statements.
- GASB Statement #77 – *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017. The Town is currently evaluating the possible impact of this will have on its financial statements.

Town of Middleton, Massachusetts
Required Supplementary Information
Fiscal Year Ended June 30, 2015

Town of Middleton's Proportionate Share of Net Pension Liability - Essex Regional Retirement System

	<u>2015</u>
Town's proportion of the net pension liability	<u>4.905%</u>
Town's proportionate share of the net pension liability	<u>\$16,640,684</u>
Town's covered-employee payroll	<u>\$6,044,677</u>
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>275.3%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>47.94%</u>

Town of Middleton's Schedule of Contributions - Essex Regional Retirement System

	<u>2015</u>
Contractually required contributions	\$1,258,143
Contributions in relation to the contractually required contribution	<u>(1,258,143)</u>
Contribution deficiency (excess)	<u>-</u>
Town's covered-employee payroll	<u>\$6,044,677</u>
Contributions as a percentage of covered-employee payroll	<u>20.81%</u>

Note: The above schedules are required for ten years. Additional years will be presented as they become available. These amounts were determined for 2015 as of December 31, 2014.

Note: The net pension liability as reported in the financial statements is different solely due to the presentation of the light department as of December 31, 2014.

Town of Middleton, Massachusetts
Required Supplementary Information
Fiscal Year Ended June 30, 2015

Town of Middleton's Proportionate Share of Net Pension Liability – Massachusetts Teachers' Retirement System

	<u>June 30, 2014</u>
Commonwealth's proportion of the net pension liability	<u>100.00%</u>
Town's proportion of the net pension liability	<u>0.00%</u>
Town's proportionate share of the net pension liability	\$ -
Commonwealth's proportionate share of the net pension liability associated with the Town	<u>13,785,388</u>
Total net pension liability associated with the Town	<u>\$13,785,388</u>
Total MTRS net pension liability	<u>\$15,896,354,000</u>
Commonwealth's actuarially determined contribution	<u>\$937,379,260</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.64%</u>

Note: The above schedules are required for ten years. Additional years will be presented as they become available. These amounts were determined for 2015 as of June 30, 2014.

TOWN OF MIDDLETON, MASSACHUSETTSCombining Balance Sheet - Nonmajor Governmental Funds
June 30, 2015

	<u>Special Revenue</u>				
	<u>Water Fund</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 897,773	3,341,493	271,900	34,425	4,545,591
Investments	-	14,536	-	756,503	771,039
Receivables:					
Property taxes	-	2,693	-	-	2,693
Departmental	-	644,322	-	-	644,322
Less: allowance for uncollectibles	-	(294,097)	-	-	(294,097)
Due from commonwealth	-	45,257	-	-	45,257
Total assets	\$ 897,773	3,754,204	271,900	790,928	5,714,805
<u>Liabilities</u>					
Accounts and warrants payable	\$ 15,343	16,435	-	-	31,778
Notes payable	-	-	450,000	-	450,000
Other liabilities	30,307	-	-	-	30,307
Total liabilities	45,650	16,435	450,000	-	512,085
<u>Deferred Inflows of Resources</u>					
Unavailable revenue	-	352,918	-	-	352,918
<u>Fund Balances</u>					
Nonspendable	-	-	-	540,901	540,901
Restricted	852,123	3,345,988	-	250,027	4,448,138
Committed	-	-	-	-	-
Assigned	-	38,863	-	-	38,863
Unassigned	-	-	(178,100)	-	(178,100)
Total fund balances	852,123	3,384,851	(178,100)	790,928	4,849,802
Total liabilities, deferred inflows of resources and fund balances	\$ 897,773	3,754,204	271,900	790,928	5,714,805

TOWN OF MIDDLETON, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2015

	<u>Special Revenue</u>				
	<u>Water Fund</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:					
Property taxes	\$ -	183,103	-	-	183,103
Departmental charges for services	51,725	1,323,733	-	3,790	1,379,248
Intergovernmental	300,000	838,358	-	-	1,138,358
Investment income	-	2,155	-	(20,247)	(18,092)
Other	-	156,011	-	24,047	180,058
Total revenues	<u>351,725</u>	<u>2,503,360</u>	<u>-</u>	<u>7,590</u>	<u>2,862,675</u>
Expenditures:					
Current:					
General government	-	162,185	905,594	460	1,068,239
Public safety	-	19,529	-	-	19,529
Education	-	1,011,571	9,444	-	1,021,015
Public works	154,435	448,374	-	-	602,809
Human services	-	94,048	-	-	94,048
Recreation and culture	-	86,560	-	22,721	109,281
Debt service	55,660	97,551	-	-	153,211
Total expenditures	<u>210,095</u>	<u>1,919,818</u>	<u>915,038</u>	<u>23,181</u>	<u>3,068,132</u>
Excess (deficiency) of revenues over expenditures	141,630	583,542	(915,038)	(15,591)	(205,457)
Other financing sources (uses):					
Operating transfers in	-	66,500	-	-	66,500
Operating transfers out	-	(421,888)	-	(50,612)	(472,500)
Net changes in fund balances	141,630	228,154	(915,038)	(66,203)	(611,457)
Fund balance, beginning of year	<u>710,493</u>	<u>3,156,697</u>	<u>736,938</u>	<u>857,131</u>	<u>5,461,259</u>
Fund balance, end of year	<u>\$ 852,123</u>	<u>3,384,851</u>	<u>(178,100)</u>	<u>790,928</u>	<u>4,849,802</u>