

**TOWN OF MILTON, MASSACHUSETTS**

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2012***

**TOWN OF MILTON, MASSACHUSETTS**

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**JUNE 30, 2012**

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Milton, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Milton Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Milton, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Milton, Massachusetts, as of June 30, 2012 (except for the Milton Contributory Retirement System which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012, on our consideration of the Town of Milton, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Powers & Fullen - LLC*

October 24, 2012

## ***Management's Discussion and Analysis***

## Management's Discussion and Analysis

As management of the Town of Milton, we offer readers of the Town of Milton's financial statements this narrative overview and analysis of the financial activities of the Town of Milton for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

### ***Financial Highlights***

- The assets of the Town of Milton exceeded its liabilities at the close of the most recent fiscal year by \$142.1 million (net assets).
- The total governmental net assets decreased by \$7.4 million. The key element of the change for FY2012 continues to be the OPEB liabilities that increased by \$6.1 million for this fiscal period.
- As of the close of the current fiscal year, the Town of Milton's governmental funds reported combined ending fund balances of \$22.6 million, an increase of \$7.7 million in comparison with the prior year. The increase is attributable primarily to the recognition of \$6 million of bond proceeds, better than expected revenue collections and the timing of federal and state grant expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7.8 million or 9.2% of total general fund budgetary expenditures.

### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Town of Milton's basic financial statements. The Town of Milton's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This approach focuses on both the Town as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Milton's finances, in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Town's financial position, which assists in assessing the Town's economic position at the end of the fiscal year. The statements are prepared using the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are considered even if cash involved has not been received or disbursed. The government-wide financial statements include two statements:

The *statement of net assets* presents information on all of the Town of Milton's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Milton is improving or deteriorating. The *statement of activities* presents information showing how government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Milton that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Milton include general government, public safety, highways and streets, public works and cemetery, education, health and human services, employee benefits, capital outlay, and culture and recreation. The business-type activities of the Town of Milton include the Water and Sewer funds.

**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 of Milton, 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 of Milton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Fiscal year 2011 was the Town's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the Town's stabilization fund is reported within the general fund as unassigned.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Milton adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The Town has several governmental funds; three of which are considered major funds for presentation purposes. In addition to the General Fund there are the Capital Projects Fund, and the State Fiscal Stabilization Fund, which are presented in a separate column in the governmental funds balance sheet and in the government funds statement of revenue, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

The depreciation method used in the Town's financial statements is the straight-line method.

**Proprietary funds.** The Town of Milton maintains proprietary funds that provide the same information as the government-wide financial statements, only in more detail. The Town maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The proprietary fund financial statements provide separate information for the sewer funds and water funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* all reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town of Milton's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town of Milton's budgetary basis of accounting.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Milton, governmental assets exceeded liabilities by \$115.9 million at the close of the most recent fiscal year. Key components of the Town's governmental financial position are listed below.

	Governmental Activities	
	2012	2011
<b>Assets:</b>		
Current assets.....	\$ 31,097,723	\$ 27,145,347
Noncurrent assets (excluding capital).....	62,828	72,747
Capital assets, not being depreciated.....	1,422,758	1,422,758
Capital assets, net of accumulated depreciation.....	<u>154,939,120</u>	<u>158,831,058</u>
<b>Total assets.....</b>	<b><u>187,522,429</u></b>	<b><u>187,471,910</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,441,193	4,824,728
Noncurrent liabilities (excluding debt).....	30,035,715	22,070,292
Current debt.....	2,688,154	5,086,172
Noncurrent debt.....	<u>35,483,702</u>	<u>32,169,190</u>
<b>Total liabilities.....</b>	<b><u>71,648,764</u></b>	<b><u>64,150,382</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	122,669,722	125,259,217
Restricted.....	5,187,677	4,728,584
Unrestricted.....	<u>(11,983,734)</u>	<u>(6,666,273)</u>
<b>Total net assets.....</b>	<b><u>\$ 115,873,665</u></b>	<b><u>\$ 123,321,528</u></b>

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

An additional portion of the Town's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

Please note that this balance (deficit) of \$12 million reflects the impact of the OPEB liability.

At the end of the current fiscal year, the Town of Milton is able to report positive balances in two of the three categories of net assets for governmental activities and all categories of net assets for business-type activities.

**Governmental activities.** Governmental activities decreased the Town of Milton's net assets by \$7.4 million. Key elements of this decrease are as follows:

	Governmental Activities	
	2012	2011
<b>Program revenues:</b>		
Charges for services.....	\$ 4,107,330	\$ 3,983,239
Operating grants and contributions.....	22,695,874	21,439,515
<b>General Revenues:</b>		
Real estate and personal property taxes.....	63,694,904	61,806,796
Motor vehicle and other excise taxes.....	2,854,392	3,073,945
Penalties and interest on taxes.....	552,023	615,206
Nonrestricted grants.....	4,365,024	6,299,781
Unrestricted investment income.....	350,122	382,763
Other revenues.....	56,163	76,192
<b>Total revenues.....</b>	<b>98,675,832</b>	<b>97,677,437</b>
<b>Expenses:</b>		
General government.....	8,961,961	7,998,811
Public safety.....	19,649,973	18,617,177
Education.....	67,858,129	66,033,278
Public works.....	6,134,600	6,652,646
Human services.....	751,038	732,088
Library.....	1,488,496	1,583,790
Culture and recreation.....	965,770	1,036,620
Interest.....	1,239,382	1,360,339
<b>Total expenses.....</b>	<b>107,049,349</b>	<b>104,014,749</b>
<b>Transfers.....</b>	<b>925,654</b>	<b>693,948</b>
<b>Change in net assets.....</b>	<b>\$ (7,447,863)</b>	<b>\$ (5,643,364)</b>

The governmental activities decreased \$7.4 million during the current fiscal year as compared to a decrease in net assets of \$5.6 million during the prior fiscal year. The main reason for the decrease each year is the annual increase in the OPEB liability. Fiscal year 2009 was the Town's initial year of implementing GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. In fiscal 2012 the Town, based on its actuarial valuation, recognized an increase of \$6.1 million in its OPEB liability. Overall revenues and expenses increased approximately \$1 million and \$3 million, respectively over FY2011 amounts. The revenue gains were mainly from new education operating grants and from real estate taxes. The expense increases were mainly employee benefits such as pension, health insurance and OPEB.

**Business-type activities.** Business-type activities increased the Town of Milton's net assets by \$953,000. Key elements of this increase are as follows.

	Business-type Activities	
	2012	2011
<b>Assets:</b>		
Current assets.....	\$ 7,917,154	\$ 9,862,801
Capital assets, not being depreciated.....	2,574,375	1,295,297
Capital assets, net of accumulated depreciation.....	20,347,131	19,361,065
<b>Total assets.....</b>	<b>30,838,660</b>	<b>30,519,163</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	323,004	228,156
Noncurrent liabilities (excluding debt).....	461,613	318,619
Current debt.....	737,436	871,647
Noncurrent debt.....	3,087,526	3,824,957
<b>Total liabilities.....</b>	<b>4,609,579</b>	<b>5,243,379</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	19,096,544	15,959,758
Unrestricted.....	7,132,537	9,316,026
<b>Total net assets.....</b>	<b>\$ 26,229,081</b>	<b>\$ 25,275,784</b>
<b>Program revenues:</b>		
Charges for services.....	\$ 11,595,100	\$ 11,986,814
<b>General Revenues:</b>		
Unrestricted investment income.....	5,682	5,962
<b>Total revenues.....</b>	<b>11,600,782</b>	<b>11,992,776</b>
<b>Expenses:</b>		
Water and sewer.....	<u>9,721,831</u>	<u>8,650,625</u>
<b>Transfers.....</b>	<b>(925,654)</b>	<b>(693,948)</b>
<b>Change in net assets.....</b>	<b>\$ 953,297</b>	<b>\$ 2,648,203</b>

Net assets for the business-type activities increased by \$953,000. This is because the water and sewer rates are designed primarily to provide additional resources to meet debt service requirements and make infrastructure improvements.

### Financial Analysis of the Government's Funds

As noted earlier, the Town of Milton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town of Milton'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 of Milton's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a

government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Town of Milton's governmental funds reported combined ending balances of \$22.6 million, an increase of \$7.7 million in comparison with the prior year. The increase is attributable primarily to the \$6 million in bond proceeds, better than expected revenue collections, and the timing of federal and state grant expenditures.

The general fund is the chief operating fund of the Town of Milton. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7.8 million, of which \$2.9 million relates to the stabilization fund. Due to GASB 54, the stabilization fund is now classified as part of the general fund. 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 fund expenditures. Unassigned fund balance represents 9.2% of total general fund expenditures, while total fund balance represents 10.1% of that same amount.

The fund balance of the Town of Milton's general fund experienced an increase of \$2.3 million during the current fiscal year. This was due to better than expected revenue collections and actual expenditures being less than budgeted.

**Proprietary funds.** The Town of Milton's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net assets of the Water and Sewer funds at the end of the year amounted to \$2.5 million and \$4.6 million, respectively. The total growth in net assets for both funds was \$394,000 and \$559,000, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Milton's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget totaled \$197,000. The adjustment was to increase appropriations due to better than expected revenue collections.

### **Capital Asset and Debt Administration**

**Capital assets.** The Town of Milton's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$179.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

**Long-term debt.** At the end of the current fiscal year, the Town of Milton had total bonded debt outstanding of \$41.7 million.

#### **Town of Milton's General Obligation Bonds Outstanding**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Municipal Purpose Bonds 2005.....	\$ 6,500,000	\$ -	\$ 6,500,000
Municipal Purpose Bonds 2007.....	7,999,000	-	7,999,000
Municipal Purpose Bonds 2008.....	6,985,061	-	6,985,061
Municipal Purpose Bonds 2009.....	10,435,000	-	10,435,000
Municipal Purpose Bonds 2012.....	6,002,666	-	6,002,666
Water System.....	-	2,580,898	2,580,898
Sewer System.....	-	1,244,064	1,244,064
<b>Total.....</b>	<b>\$ 37,921,727</b>	<b>\$ 3,824,962</b>	<b>\$ 41,746,689</b>

Standard & Poor's Corporation (S&P) has rated the Town's long-term debt in fiscal 2012 as AA, S&P's second highest rating, which indicates the Town's debt is considered "high quality" as an investment.

#### **Requests for Information**

This financial report is designed to provide a general overview of the Town of Milton'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 Accountant's Office, 525 Canton Avenue, Milton, MA 02186.

## ***Basic Financial Statements***

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**STATEMENT OF NET ASSETS**

JUNE 30, 2012

		<b>Primary Government</b>		
		Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 24,076,260	\$ 3,977,081	\$ 28,053,341	
Investments.....	2,339,725	-	2,339,725	
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes.....	1,640,334	-	1,640,334	
Tax liens.....	1,663,000	-	1,663,000	
Motor vehicle and other excise taxes.....	613,654	-	613,654	
User fees.....	-	3,940,073	3,940,073	
Departmental and other.....	133,122	-	133,122	
Intergovernmental.....	621,708	-	621,708	
Unamortized issue costs on bonds payable.....	9,920	-	9,920	
<b>NONCURRENT:</b>				
Unamortized issue costs on bonds payable.....	62,828	-	62,828	
Capital assets, not being depreciated.....	1,422,758	2,574,375	3,997,133	
Capital assets, net of accumulated depreciation.....	154,939,120	20,347,131	175,286,251	
<b>TOTAL ASSETS.....</b>	<b>187,522,429</b>	<b>30,838,660</b>	<b>218,361,089</b>	
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	1,492,732	171,145	1,663,877	
Health claims payable.....	623,000	-	623,000	
Tax refunds payable.....	72,000	-	72,000	
Accrued interest.....	551,011	18,335	569,346	
Abandoned property.....	143,466	1,051	144,517	
Customer deposits payable.....	5,000	62,500	67,500	
Capital lease obligations.....	67,765	-	67,765	
Compensated absences.....	401,313	69,973	471,286	
Workers' compensation.....	84,906	-	84,906	
Bonds payable.....	2,654,045	737,436	3,391,481	
Unamortized premium on bonds and notes payable.....	34,109	-	34,109	
<b>NONCURRENT:</b>				
Capital lease obligations.....	55,408	-	55,408	
Compensated absences.....	1,605,251	-	1,605,251	
Workers' compensation.....	339,623	-	339,623	
Other postemployment benefits.....	28,035,433	461,613	28,497,046	
Bonds payable.....	35,267,682	3,087,526	38,355,208	
Unamortized premium on bonds and notes payable.....	216,020	-	216,020	
<b>TOTAL LIABILITIES.....</b>	<b>71,648,764</b>	<b>4,609,579</b>	<b>76,258,343</b>	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	122,669,722	19,096,544	141,766,266	
Restricted for:				
Permanent funds:				
Expendable.....	2,123,243	-	2,123,243	
Nonexpendable.....	2,576,697	-	2,576,697	
Other purposes.....	487,737	-	487,737	
Unrestricted.....	(11,983,734)	7,132,537	(4,851,197)	
<b>TOTAL NET ASSETS.....</b>	<b>\$ 115,873,665</b>	<b>\$ 26,229,081</b>	<b>\$ 142,102,746</b>	

See notes to basic financial statements.

## STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
General government.....	\$ 8,961,961	\$ 425,682	\$ 605,621	\$ (7,930,658)
Public safety.....	19,649,973	873,478	322,299	(18,454,196)
Education.....	67,858,129	762,892	20,861,184	(46,234,053)
Public works.....	6,134,600	1,942,824	229,908	(3,961,868)
Human services.....	751,038	51,252	141,009	(558,777)
Library.....	1,488,496	-	108,958	(1,379,538)
Culture and recreation.....	965,770	51,202	426,895	(487,673)
Interest.....	<u>1,239,382</u>	<u>-</u>	<u>-</u>	<u>(1,239,382)</u>
Total Governmental Activities.....	<u>107,049,349</u>	<u>4,107,330</u>	<u>22,695,874</u>	<b><u>(80,246,145)</u></b>
<i>Business-Type Activities:</i>				
Water.....	4,043,771	4,929,061	-	885,290
Sewer.....	<u>5,678,060</u>	<u>6,666,039</u>	<u>-</u>	<u>987,979</u>
Total Business-Type Activities.....	<u>9,721,831</u>	<u>11,595,100</u>	<u>-</u>	<b><u>1,873,269</u></b>
Total Primary Government.....	<b><u>\$ 116,771,180</u></b>	<b><u>\$ 15,702,430</u></b>	<b><u>\$ 22,695,874</u></b>	<b><u>\$ (78,372,876)</u></b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

**FISCAL YEAR ENDED JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(80,246,145)</b>	\$ <b>1,873,269</b>	\$ <b>(78,372,876)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	63,694,904	-	63,694,904
Motor vehicle and other excise taxes.....	2,854,392	-	2,854,392
Penalties and interest on taxes.....	552,023	-	552,023
Grants and contributions not restricted to specific programs.....	4,365,024	-	4,365,024
Unrestricted investment income.....	350,122	5,682	355,804
Other.....	56,163	-	56,163
<i>Transfers, net</i> .....	<u>925,654</u>	<u>(925,654)</u>	<u>-</u>
Total general revenues and transfers.....	<u>72,798,282</u>	<u>(919,972)</u>	<u>71,878,310</u>
Change in net assets.....	(7,447,863)	953,297	(6,494,566)
<i>Net Assets:</i>			
Beginning of year.....	<u>123,321,528</u>	<u>25,275,784</u>	<u>148,597,312</u>
End of year.....	<u>\$ 115,873,665</u>	<u>\$ 26,229,081</u>	<u>\$ 142,102,746</u>

(Concluded)

**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 9,793,584	\$ 2,910,692	\$ 8,397,114	\$ 21,101,390
Investments.....	-	-	2,339,725	2,339,725
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,640,334	-	-	1,640,334
Tax liens and foreclosures.....	1,663,000	-	-	1,663,000
Motor vehicle and other excise taxes.....	613,654	-	-	613,654
Departmental and other.....	-	-	133,122	133,122
Intergovernmental.....	-	-	621,708	621,708
<b>TOTAL ASSETS</b> .....	<b>\$ 13,710,572</b>	<b>\$ 2,910,692</b>	<b>\$ 11,491,669</b>	<b>\$ 28,112,933</b>
<b>LIABILITIES AND FUND BALANCES</b>				
LIABILITIES:				
Warrants payable.....	\$ 1,264,535	\$ 25,795	\$ 201,844	\$ 1,492,174
Tax refunds payable.....	72,000	-	-	72,000
Liabilities due depositors.....	5,000	-	-	5,000
Abandoned property.....	143,466	-	-	143,466
Deferred revenues.....	3,608,487	-	223,006	3,831,493
<b>TOTAL LIABILITIES</b> .....	<b>5,093,488</b>	<b>25,795</b>	<b>424,850</b>	<b>5,544,133</b>
FUND BALANCES:				
Nonspendable.....	-	-	2,602,410	2,602,410
Restricted.....	-	2,884,897	8,464,409	11,349,306
Assigned.....	816,236	-	-	816,236
Unassigned.....	7,800,848	-	-	7,800,848
<b>TOTAL FUND BALANCES</b> .....	<b>8,617,084</b>	<b>2,884,897</b>	<b>11,066,819</b>	<b>22,568,800</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b> .....	<b>\$ 13,710,572</b>	<b>\$ 2,910,692</b>	<b>\$ 11,491,669</b>	<b>\$ 28,112,933</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2012

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Total governmental fund balances.....	\$ 22,568,800
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	156,361,878
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	3,831,493
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	2,351,312
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(551,011)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds payable.....	(37,921,727)
Unamortized premiums on bonds and notes payable.....	(250,129)
Unamortized issue costs on bonds payable.....	72,748
Other postemployment benefits.....	(28,035,433)
Workers compensation.....	(424,529)
Capital lease obligations.....	(123,173)
Compensated absences.....	<u>(2,006,564)</u>
Net effect of reporting long-term liabilities.....	<u>(68,688,807)</u>
Net assets of governmental activities.....	<u>\$ 115,873,665</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**FISCAL YEAR ENDED JUNE 30, 2012**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 63,454,016	\$ -	\$ -	\$ 63,454,016
Motor vehicle and other excise taxes.....	2,877,388	-	-	2,877,388
Penalties and interest on taxes.....	552,023	-	-	552,023
Intergovernmental.....	16,682,739	79,800	8,374,393	25,136,932
Departmental and other.....	2,501,379	-	4,217,689	6,719,068
Contributions.....	-	-	571,715	571,715
Investment income.....	167,421	-	182,701	350,122
Miscellaneous.....	54,224	-	-	54,224
<b>TOTAL REVENUES.....</b>	<b>86,289,190</b>	<b>79,800</b>	<b>13,346,498</b>	<b>99,715,488</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	3,629,409	619,296	876,039	5,124,744
Public safety.....	10,965,136	64,125	1,449,405	12,478,666
Education.....	34,794,582	-	8,969,339	43,763,921
Public works.....	4,821,800	201,817	921,547	5,945,164
Human services.....	542,865	-	150,746	693,611
Library.....	1,036,731	50,431	104,366	1,191,528
Culture and recreation.....	380,280	8,553	507,227	896,060
Pension benefits.....	11,653,671	-	-	11,653,671
Employee benefits.....	10,387,854	-	-	10,387,854
State and county charges.....	3,271,591	-	-	3,271,591
Capital outlay.....	15,079	-	3,391	18,470
Debt service:				
Principal.....	2,296,379	-	-	2,296,379
Interest.....	1,339,853	-	-	1,339,853
<b>TOTAL EXPENDITURES.....</b>	<b>85,135,230</b>	<b>944,222</b>	<b>12,982,060</b>	<b>99,061,512</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>				
	<b>1,153,960</b>	<b>(864,422)</b>	<b>364,438</b>	<b>653,976</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	3,446,566	2,556,100	6,002,666
Capital lease financing.....	-	167,517	-	167,517
Transfers in.....	1,101,649	-	5,000	1,106,649
Transfers out.....	(5,000)	-	(175,995)	(180,995)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,096,649</b>	<b>3,614,083</b>	<b>2,385,105</b>	<b>7,095,837</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>2,250,609</b>	<b>2,749,661</b>	<b>2,749,543</b>	<b>7,749,813</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (restated).....</b>	<b>6,366,475</b>	<b>135,236</b>	<b>8,317,276</b>	<b>14,818,987</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 8,617,084</b>	<b>\$ 2,884,897</b>	<b>\$ 11,066,819</b>	<b>\$ 22,568,800</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds.....	\$ 7,749,813
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	1,494,263
Depreciation expense.....	<u>(5,386,201)</u>

Net effect of reporting capital assets.....	(3,891,938)
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Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... (1,039,656)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease financing.....	(167,517)
Proceeds from bonds and notes.....	<u>(6,002,666)</u>
Capital lease principal payments.....	87,048
Debt service principal payments.....	<u>2,296,379</u>

Net effect of reporting long-term debt.....	(3,786,756)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(381,522)
Net change in workers compensation accrual.....	<u>(424,529)</u>
Net change in accrued interest on long-term debt.....	60,678
Amortization of issuance costs.....	<u>(11,573)</u>
Amortization of bond premiums.....	39,793
Other postemployment benefits.....	<u>(5,988,281)</u>

Net effect of recording long-term liabilities and amortizing deferred losses.....	(6,705,434)
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Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....	<u>226,108</u>
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Change in net assets of governmental activities.....	<u>\$ (7,447,863)</u>
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See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2012

Business-type Activities - Enterprise Funds					
	Water	Sewer	Total	Governmental Activities - Internal Service Funds	
<b>ASSETS</b>					
CURRENT:					
Cash and cash equivalents.....	\$ 1,414,014	\$ 2,563,067	\$ 3,977,081	\$ 2,974,870	
Receivables, net of allowance for uncollectibles:					
User fees.....	1,524,422	2,415,651	3,940,073		-
Total current assets.....	2,938,436	4,978,718	7,917,154		2,974,870
NONCURRENT:					
Capital assets, not being depreciated.....	1,126,481	1,447,894	2,574,375		-
Capital assets, net of accumulated depreciation.....	12,384,735	7,962,396	20,347,131		-
Total noncurrent assets.....	13,511,216	9,410,290	22,921,506		-
<b>TOTAL ASSETS.....</b>	<b>16,449,652</b>	<b>14,389,008</b>	<b>30,838,660</b>		<b>2,974,870</b>
<b>LIABILITIES</b>					
CURRENT:					
Warrants payable.....	136,140	35,005	171,145		558
Health claims payable.....	-	-	-		623,000
Accrued interest.....	14,920	3,415	18,335		-
Customer deposits payable.....	40,000	22,500	62,500		-
Other liabilities.....	1,051	-	1,051		-
Compensated absences.....	36,236	33,737	69,973		-
Bonds and notes payable.....	541,745	195,691	737,436		-
Total current liabilities.....	770,092	290,348	1,060,440		623,558
NONCURRENT:					
Other postemployment benefits.....	239,052	222,561	461,613		-
Bonds and notes payable.....	2,039,153	1,048,373	3,087,526		-
Total noncurrent liabilities.....	2,278,205	1,270,934	3,549,139		-
<b>TOTAL LIABILITIES.....</b>	<b>3,048,297</b>	<b>1,561,282</b>	<b>4,609,579</b>		<b>623,558</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	10,930,318	8,166,226	19,096,544		-
Unrestricted.....	2,471,037	4,661,500	7,132,537		2,351,312
<b>TOTAL NET ASSETS.....</b>	<b>\$ 13,401,355</b>	<b>\$ 12,827,726</b>	<b>\$ 26,229,081</b>	<b>\$ 2,351,312</b>	

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2012

Business-type Activities - Enterprise Funds					
	Water	Sewer	Total	Governmental Activities - Internal Service Funds	
<b>OPERATING REVENUES:</b>					
Employee contributions .....	\$ -	\$ -	\$ -	\$ 2,068,635	
Employer contributions .....	-	-	-	9,637,032	
Charges for services .....	4,929,061	6,666,039	11,595,100	-	
Contributions.....	-	-	-	728,353	
<b>TOTAL OPERATING REVENUES .....</b>	<b>4,929,061</b>	<b>6,666,039</b>	<b>11,595,100</b>	<b>12,434,020</b>	
<b>OPERATING EXPENSES:</b>					
Cost of services and administration .....	1,887,103	1,076,214	2,963,317	-	
MWRA assessment.....	1,874,686	4,364,535	6,239,221	-	
Depreciation.....	283,381	207,431	490,812	-	
Employee benefits .....	-	-	-	12,207,912	
<b>TOTAL OPERATING EXPENSES .....</b>	<b>4,045,170</b>	<b>5,648,180</b>	<b>9,693,350</b>	<b>12,207,912</b>	
<b>OPERATING INCOME (LOSS).....</b>	<b>883,891</b>	<b>1,017,859</b>	<b>1,901,750</b>	<b>226,108</b>	
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income.....	2,092	3,590	5,682	-	
Interest expense.....	1,399	(29,880)	(28,481)	-	
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>3,491</b>	<b>(26,290)</b>	<b>(22,799)</b>	<b>-</b>	
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>887,382</b>	<b>991,569</b>	<b>1,878,951</b>	<b>226,108</b>	
<b>TRANSFERS:</b>					
Transfers out.....	(493,147)	(432,507)	(925,654)	-	
<b>TOTAL TRANSFERS.....</b>	<b>(493,147)</b>	<b>(432,507)</b>	<b>(925,654)</b>	<b>-</b>	
CHANGE IN NET ASSETS.....	394,235	559,062	953,297	226,108	
NET ASSETS AT BEGINNING OF YEAR.....	13,007,120	12,268,664	25,275,784	2,125,204	
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 13,401,355</b>	<b>\$ 12,827,726</b>	<b>\$ 26,229,081</b>	<b>\$ 2,351,312</b>	

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 4,920,633	\$ 6,715,461	\$ 11,636,094	\$ 12,434,020
Payments to vendors.....	(3,078,483)	(4,942,695)	(8,021,178)	(12,249,354)
Payments to employees.....	(614,883)	(389,483)	(1,004,366)	-
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,227,267</u>	<u>1,383,283</u>	<u>2,610,550</u>	<u>184,666</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers out.....	(493,147)	(432,507)	(925,654)	-
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Acquisition and construction of capital assets.....	(1,126,481)	(1,629,475)	(2,755,956)	-
Principal payments on bonds and notes.....	(677,180)	(194,462)	(871,642)	-
Interest expense.....	-	(30,133)	(30,133)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,803,661)</u>	<u>(1,854,070)</u>	<u>(3,657,731)</u>	<u>-</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	2,092	3,590	5,682	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,067,449)	(899,704)	(1,967,153)	184,666
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>2,481,463</u>	<u>3,462,771</u>	<u>5,944,234</u>	<u>2,790,204</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 1,414,014</u>	<u>\$ 2,563,067</u>	<u>\$ 3,977,081</u>	<u>\$ 2,974,870</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 883,891	\$ 1,017,859	\$ 1,901,750	\$ 226,108
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	283,381	207,431	490,812	-
Changes in assets and liabilities:				
User fees.....	(48,428)	26,922	(21,506)	-
Warrants payable.....	(16,200)	29,787	13,587	558
Health claims payable.....	-	-	-	(42,000)
Liabilities due depositors.....	40,000	22,500	62,500	-
Postretirement benefits.....	74,052	68,942	142,994	-
Accrued compensated absences.....	10,571	9,842	20,413	-
Total adjustments.....	<u>343,376</u>	<u>365,424</u>	<u>708,800</u>	<u>(41,442)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,227,267</u>	<u>\$ 1,383,283</u>	<u>\$ 2,610,550</u>	<u>\$ 184,666</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2012

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	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 494,305	\$ 242,637
Investments.....	79,239,290	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	693	-
<b>TOTAL ASSETS.....</b>	<b><u>79,734,288</u></b>	<b><u>242,637</u></b>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes.....	\$ <u>79,734,288</u>	\$ <u>242,637</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**FISCAL YEAR ENDED JUNE 30, 2012**

	Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 4,317,807	\$ -
Employee.....	1,704,166	-
Private donations.....	-	1,695
Total contributions.....	<u>6,021,973</u>	<u>1,695</u>
Net investment income (loss):		
Net change in fair value of investments.....	(2,145,052)	-
Interest and dividends.....	<u>2,408,082</u>	<u>75</u>
Total investment income (loss).....	<u>263,030</u>	<u>75</u>
Less: investment expense.....	<u>(395,461)</u>	<u>-</u>
Net investment income (loss).....	<u>(132,431)</u>	<u>75</u>
Intergovernmental.....	<u>69,524</u>	<u>-</u>
Miscellaneous income.....	<u>6,000</u>	<u>-</u>
Transfers from other systems.....	<u>364,571</u>	<u>-</u>
<b>TOTAL ADDITIONS.....</b>	<b><u>6,329,637</u></b>	<b><u>1,770</u></b>
<b>DEDUCTIONS:</b>		
Administration.....	137,665	-
Transfers to other systems.....	261,654	-
Retirement benefits and refunds.....	7,191,989	-
Educational scholarships.....	-	24,175
<b>TOTAL DEDUCTIONS.....</b>	<b><u>7,591,308</u></b>	<b><u>24,175</u></b>
CHANGE IN NET ASSETS.....	<u>(1,261,671)</u>	<u>(22,405)</u>
NET ASSETS AT BEGINNING OF YEAR.....	<u>80,995,959</u>	<u>265,042</u>
<b>NET ASSETS AT END OF YEAR.....</b>	<b><u>\$ 79,734,288</u></b>	<b><u>\$ 242,637</u></b>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Milton, Massachusetts (the "Town") have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The Town is a municipal corporation that is governed by an elected Board of Selectmen and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

*Blended Component Units* – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds the Milton Contributory Retirement System (the MCRS) was established to provide retirement benefits to Town employees, the Town Housing Authority employees, and their beneficiaries. The MCRS is governed by a five-member board comprised of the Town Accountant (ex-officio), two elected members, a member appointed by the Board of Selectmen and a member appointed by the other four members. The MCRS is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

**Joint Ventures**

The Town has entered into a joint venture with the Towns of Avon, Canton, Dedham, Braintree, Holbrook, Westwood, Norwood, and Randolph to pool resources and share the costs, risks and rewards of providing vocational education through the Blue Hills Regional Technical School District.

**Availability of Financial Information for Component Units**

The MCRS did not issue a separate audited financial statement. The MCRS issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the MCRS located at 525 Canton Avenue, Milton, Massachusetts, 02186.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

*Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

#### *Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

##### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

##### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues. For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and water and sewer enterprise fund. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The *water and sewer enterprise funds* are used to account for the water and sewer activities.

Additionally, the Town reports an *internal service fund* as a proprietary fund type. This fund is used to account for the risk financing activities related to active employees' and retirees' health insurance.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the MCRS, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

***Real Estate, Personal Property Taxes and Tax Liens***

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

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Motor Vehicle and Other Excise Taxes***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

***Water and Sewer User Fees***

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

***Departmental and Other***

Departmental and other receivables consist primarily of police details and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, vehicles and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Land improvements.....	30
Buildings.....	40
Vehicles and equipment.....	3-40
Infrastructure.....	40-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances."

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net."

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Fund Equity*Government-Wide Financial Statements (Net Assets)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

"Nonspendable" fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### L. Capital Lease Obligations

The Town leases various assets under capital lease agreements. In the government-wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets.

#### M. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is retained by that fund.

**O. Compensated Absences**

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

*Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

**P. Use of Estimates***Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**Q. Total Column***Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

*Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the Pension Reserves Investment Trust (PRIT) Fund. The PRIT Fund is a pooled investment fund established to invest the pension funds of the Massachusetts State Employees' and Teachers' Retirement Systems, and the assets of the county, authority, district, and municipal retirement systems that choose to invest in the Fund. The PRIT Fund was created in December 1983 by the Legislature (chapter 661, acts 1983) with a mandate to accumulate the assets through investment earnings and other revenue sources in order to reduce the Commonwealth's significant unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy for custodial risk is to place funds in institutions that provide the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield and uses recognized bank rating services as a basis for this determination. At fiscal year-end, the carrying amount of deposits totaled \$21,779,053 and the bank balance totaled \$22,882,045. Of the bank balance, \$1,862,339 was covered by Federal Depository Insurance, \$3,530,107 was covered by Depositors Insurance Fund Insurance, \$9,828,155 was collateralized and \$7,661,444 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2011, the carrying amount of deposits for the System totaled \$494,305 and the bank balance of \$654,560 is 100% insured.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town's investments of \$104,426 in U.S. Treasury Notes, \$565,763 in corporate bonds, and \$1,669,536 in equity securities have a custodial credit risk exposure of \$2,339,725 because the related securities are uninsured, unregistered and held by the counterparty. The Town's policy for custodial credit risk is to invest its funds with companies that provide a proof of credit worthiness which includes a minimum of five years in operation and capital of \$10 million.

At December 31, 2011 investments of \$79,239,290 in the PRIT Fund do not have any custodial credit risk associated with it.

Investments

The Town had the following investments, with their respective maturities, at June 30, 2012:

<b>Investment Type</b>	<b>Maturity</b>			
	<b>Fair Value</b>	<b>Under 1 Year</b>	<b>1-5 Years</b>	<b>Over 10 Years</b>
<b>Debt Securities</b>				
U.S. Treasury Notes.....	\$ 104,426	\$ 61,450	\$ 42,976	\$ -
Corporate Bonds.....	<u>565,763</u>	<u>51,336</u>	<u>407,864</u>	<u>106,563</u>
Total Debt Securities.....	670,189	<u>\$ 112,786</u>	<u>\$ 450,840</u>	<u>\$ 106,563</u>
<b>Other Investments</b>				
Equity Securities.....	1,669,536			
Money Market Mutual Funds.....	5,025,272			
MMDT.....	<u>1,491,653</u>			
Total Investments.....	\$ <u>8,856,650</u>			

Interest Rate Risk

The Town and the System uses PRIT guidelines in as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town uses PRIT guidelines as a means to manage credit risk. Standard and Poor's Investors Service rated the corporate and municipal bonds as follows:

<b>Quality Ratings</b>	<b>Corporate Bonds</b>
A-.....	32,550
AA+.....	318,473
BBB.....	51,336
BBB+.....	<u>163,404</u>
Fair Value.....	\$ <u>565,763</u>

Concentration of Credit Risk

The Town uses PRIT guidelines in limiting the amount the Town may invest in any one issuer. More than 5% of the Town's investments are invested in the following issuers:

Issuer	Percentage Of Total Investments
Corporate Bonds.....	6%
Equity Securities.....	19%
Money Market Mutual Funds.....	58%
MMDT.....	17%

**NOTE 3 - RECEIVABLES**

At June 30, 2012, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,640,334	\$ -	\$ 1,640,334
Tax liens and foreclosures.....	1,663,000	-	1,663,000
Motor vehicle and other excise taxes.....	695,654	(82,000)	613,654
Departmental and other.....	133,122	-	133,122
Intergovernmental.....	621,708	-	621,708
<b>Total.....</b>	<b>\$ 4,753,818</b>	<b>\$ (82,000)</b>	<b>\$ 4,671,818</b>

At June 30, 2012, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 3,940,073	\$ -	\$ 3,940,073

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Nonmajor Governmental Funds	Total
<b>Receivables and other asset types:</b>			
Real estate and personal property taxes.....	\$ 1,331,833	\$ -	\$ 1,331,833
Tax liens and foreclosures.....	1,663,000	-	1,663,000
Motor vehicle and other excise taxes.....	613,654	-	613,654
Departmental and other.....	-	133,122	133,122
Intergovernmental.....	-	89,884	89,884
<b>Total.....</b>	<b>\$ 3,608,487</b>	<b>\$ 223,006</b>	<b>\$ 3,831,493</b>

#### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....				
Land.....	\$ 1,422,758	\$ -	\$ -	\$ 1,422,758
<u>Capital assets being depreciated:</u>				
Land improvements.....				
Land improvements.....	25,352	-	-	25,352
Buildings.....				
Buildings.....	175,281,436	194,031	-	175,475,467
Vehicles and equipment.....				
Vehicles and equipment.....	12,856,845	591,787	-	13,448,632
Infrastructure.....				
Infrastructure.....	23,930,465	708,445	-	24,638,910
Total capital assets being depreciated.....				
Total capital assets being depreciated.....	212,094,098	1,494,263	-	213,588,361
<u>Less accumulated depreciation for:</u>				
Land improvements.....				
Land improvements.....	(7,274)	(845)	-	(8,119)
Buildings.....				
Buildings.....	(29,697,198)	(4,217,510)	-	(33,914,708)
Vehicles and equipment.....				
Vehicles and equipment.....	(9,685,093)	(599,392)	-	(10,284,485)
Infrastructure.....				
Infrastructure.....	(13,873,475)	(568,454)	-	(14,441,929)
Total accumulated depreciation.....				
Total accumulated depreciation.....	(53,263,040)	(5,386,201)	-	(58,649,241)
Total capital assets being depreciated, net.....				
Total capital assets being depreciated, net.....	158,831,058	(3,891,938)	-	154,939,120
Total governmental activities capital assets, net.....				
Total governmental activities capital assets, net.....	\$ 160,253,816	\$ (3,891,938)	\$ -	\$ 156,361,878

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 1,015,214	\$ 1,126,481	\$ (1,015,214)	\$ 1,126,481
<u>Capital assets being depreciated:</u>				
Buildings.....	5,000	-	-	5,000
Vehicles and equipment.....	431,761	-	-	431,761
Infrastructure.....	23,539,468	1,015,214	-	24,554,682
Total capital assets being depreciated.....	23,976,229	1,015,214	-	24,991,443
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,312)	(125)	-	(1,437)
Vehicles and equipment.....	(428,755)	(1,692)	-	(430,447)
Infrastructure.....	(11,893,260)	(281,564)	-	(12,174,824)
Total accumulated depreciation.....	(12,323,327)	(283,381)	-	(12,606,708)
Total capital assets being depreciated, net.....	11,652,902	731,833	-	12,384,735
Total water enterprise capital assets, net.....	\$ 12,668,116	\$ 1,858,314	\$ (1,015,214)	\$ 13,511,216
 <b>Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 280,083	\$ 1,447,894	\$ (280,083)	\$ 1,447,894
<u>Capital assets being depreciated:</u>				
Buildings.....	10,000	-	-	10,000
Vehicles and equipment.....	78,868	181,581	-	260,449
Infrastructure.....	16,210,526	280,083	-	16,490,609
Total capital assets being depreciated.....	16,299,394	461,664	-	16,761,058
<u>Less accumulated depreciation for:</u>				
Buildings.....	(10,000)	-	-	(10,000)
Vehicles and equipment.....	(78,511)	(18,514)	-	(97,025)
Infrastructure.....	(8,502,720)	(188,917)	-	(8,691,637)
Total accumulated depreciation.....	(8,591,231)	(207,431)	-	(8,798,662)
Total capital assets being depreciated, net.....	7,708,163	254,233	-	7,962,396
Total sewer enterprise capital assets, net.....	\$ 7,988,246	\$ 1,702,127	\$ (280,083)	\$ 9,410,290

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 59,744
Public safety.....	353,366
Education.....	3,880,115
Public works.....	691,207
Human services.....	27,275
Library.....	27,096
Culture and recreation.....	<u>347,398</u>
 Total depreciation expense - governmental activities.....	<u>\$ 5,386,201</u>
<b>Business-Type Activities:</b>	
Water.....	\$ 283,381
Sewer.....	<u>207,431</u>
 Total depreciation expense - business-type activities.....	<u>\$ 490,812</u>

#### **NOTE 5 - INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers Out:	Transfers In:		
			Total
	General Fund	Nonmajor Funds	
General Fund.....	\$ -	\$ 5,000	\$ 5,000 (1)
Nonmajor Governmental Funds.....	175,995	-	175,995 (2)
Proprietary funds.....	<u>925,654</u>	-	<u>925,654</u> (3)
 Total.....	<u>\$ 1,101,649</u>	<u>\$ 5,000</u>	<u>\$ 1,106,649</u>

- (1) Transferred out of general fund to special revenue fund relating to the Town's 350<sup>th</sup> anniversary celebration.
- (2) Transferred out of special revenue funds and into general fund from income generated from dog licenses, sales of burial rights, and perpetual care funds.
- (3) Reimbursement of indirect expenditures paid by the general fund.

**NOTE 6 – CAPITAL LEASES**

The Town has entered various lease agreements to finance the acquisition vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The amount capitalized totaled \$265,829 and at year end had a book value, net of accumulated depreciation, of \$166,281.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2012, are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2013.....	\$ 77,927
2014.....	<u>60,445</u>
Total minimum lease payments.....	138,372
Less: amounts representing interest.....	<u>(15,199)</u>
Present value of minimum lease payments.....	<u>\$ 123,173</u>

**NOTE 7 - SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund. Details related to the short-term debt activity for the fiscal year ended June 30, 2012, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011		Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012	
BAN	Municipal Purpose.....	1.85	02/10/12	\$ 1,600,000	\$	-	\$ 1,600,000	\$	-
BAN	Municipal Purpose.....	1.05	02/10/12	900,000		-	900,000		-
BAN	Municipal Purpose.....	1.00	02/10/12	250,000		-	250,000		-
	Total.....			\$ 2,750,000	\$	-	\$ 2,750,000	\$	-

**NOTE 8 - LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Issue	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose Bonds 2005.....	2025	\$ 10,000,000	4.27	7,000,000	\$ -	500,000	\$ 6,500,000
Municipal Purpose Bonds 2007.....	2026	11,864,474	4.00 - 4.13	8,641,000	-	642,000	7,999,000
Municipal Purpose Bonds 2008.....	2028	8,978,577	2.00 - 4.24	7,479,440	-	494,379	6,985,061
Municipal Purpose Bonds 2009.....	2029	12,419,455	3.90 - 4.00	11,095,000	-	660,000	10,435,000
Municipal Purpose Bonds 2012.....	2032	6,002,666	2.00 - 2.75	-	6,002,666	-	6,002,666
Total.....				\$ 34,215,440	\$ 6,002,666	\$ 2,296,379	\$ 37,921,727

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 2,654,045	\$ 1,326,875	\$ 3,980,920
2014.....	2,597,379	1,274,145	3,871,524
2015.....	2,597,379	1,185,095	3,782,474
2016.....	2,542,379	1,100,237	3,642,616
2017.....	2,537,379	1,013,951	3,551,330
2018.....	2,502,379	926,778	3,429,157
2019.....	2,467,379	839,962	3,307,341
2020.....	2,463,379	749,433	3,212,812
2021.....	2,408,379	657,666	3,066,045
2022.....	2,408,379	567,445	2,975,824
2023.....	2,403,379	476,412	2,879,791
2024.....	2,393,379	383,513	2,776,892
2025.....	2,393,379	289,972	2,683,351
2026.....	1,889,379	194,649	2,084,028
2027.....	1,364,379	124,098	1,488,477
2028.....	1,209,376	75,897	1,285,273
2029.....	525,000	35,057	560,057
2030.....	195,000	15,245	210,245
2031.....	195,000	10,175	205,175
2032.....	175,000	4,813	179,813
Total.....	\$ 37,921,727	\$ 11,251,418	\$ 49,173,145

**Bonds and Notes Payable Schedule – Enterprise Fund**

Issue	Maturities Through	Origional Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWPAT Bonds 1997.....	2017	494,304	0.00	\$ 193,226	\$ -	\$ 29,876	\$ 163,350
MWPAT Bonds 2002.....	2021	63,451	0.00	33,207	-	3,363	29,844
MWRA Notes 2002.....	2012	1,354,360	0.00	135,436	-	135,436	-
MWPAT Bonds 2003.....	2023	262,060	0.00	163,493	-	11,303	152,190
MWRA Notes 2004.....	2014	1,354,360	0.00	406,308	-	135,436	270,872
MWRA Notes 2005.....	2015	677,180	0.00	270,872	-	67,718	203,154
Municipal Purpose Bonds 2006.....	2026	839,000	4.13	624,000	-	43,000	581,000
MWRA Notes 2006.....	2016	677,180	0.00	338,590	-	67,718	270,872
MWRA Notes 2007.....	2017	677,180	0.00	406,308	-	67,718	338,590
MWRA Notes 2009.....	2019	529,600	0.00	423,680	-	52,960	370,720
MWRA Notes 2009.....	2019	1,023,634	0.00	763,908	-	129,863	634,045
MWRA Notes 2010.....	2020	753,306	0.00	677,976	-	75,331	602,645
MWRA Notes 2011.....	2016	259,600	0.00	259,600	-	51,920	207,680
				\$ 4,696,604	\$ -	\$ 871,642	\$ 3,824,962
Sewer.....				\$ 1,438,526	\$ -	\$ 194,462	\$ 1,244,064
Water.....				3,258,078	-	677,180	2,580,898
Total.....				\$ 4,696,604	\$ -	\$ 871,642	\$ 3,824,962

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2013.....	\$ 737,431	\$ 41,270	\$ 778,701
2014.....	739,746	37,154	776,900
2015.....	550,275	32,494	582,769
2016.....	483,559	28,209	511,768
2017.....	364,953	23,887	388,840
2018.....	262,570	19,507	282,077
2019.....	262,574	17,077	279,651
2020.....	133,752	14,647	148,399
2021.....	57,994	12,257	70,251
2022.....	55,054	9,815	64,869
2023.....	55,054	7,373	62,427
2024.....	41,000	5,256	46,256
2025.....	41,000	3,512	44,512
2026.....	40,000	1,750	41,750
Total.....	\$ 3,824,962	\$ 254,208	\$ 4,079,170

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. The loan portion is payable in five equal annual installments. At June 30, 2012, the outstanding principal amount of these loans totaled \$2,898,578.

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of approximately \$87,000 and interest costs for \$49,000. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$244,000. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2012 principal and interest subsidies totaled approximately \$10,300 and \$14,100, respectively.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the Town had the following authorized and unissued debt:

Purpose	Amount
Various capital.....	\$ 1,776,577
Sewer system rehab.....	42,007
Water rehab.....	500,000
Sewer system upgrades.....	500,000
Surface drain system.....	500,000
Wind turbines.....	4,850,000
Sewer capital needs.....	240,400
Medical expenses.....	1,700,000
Sewer system improvements.....	500,000
Water system improvements.....	1,180,000
Total.....	<u>\$ 11,788,984</u>

#### Changes in Long-term Liabilities

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

##### **Governmental Activities:**

	Balance at June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance at June 30, 2012	Current Portion
Long-term bonds and notes payable.....	\$ 34,215,440	\$ 6,002,666	\$ (2,296,379)	\$ -	\$ 37,921,727	\$ 2,654,045
Other Postemployment Benefits.....	22,047,152	-	-	5,988,281	28,035,433	-
Unamortized premium.....	289,922	-	(289,922)	250,129	250,129	34,109
Capital leases.....	42,704	-	-	80,469	123,173	67,765
Compensated absences.....	1,625,042	-	-	381,522	2,006,564	401,313
Workers compensation.....	-	-	-	424,529	424,529	84,906
Total.....	<u>\$ 58,220,260</u>	<u>\$ 6,002,666</u>	<u>\$ (2,586,301)</u>	<u>\$ 7,124,930</u>	<u>\$ 68,761,555</u>	<u>\$ 3,242,138</u>

**Business Type Activities:**

	Balance at June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance at June 30, 2012	Current Portion
Long-term bonds and notes payable.....	\$ 4,696,604	\$ -	\$ (871,642)	\$ -	\$ 3,824,962	\$ 737,431
Other Postemployment Benefits.....	318,619	-	-	142,994	461,613	-
Compensated absences.....	49,560	-	-	20,413	69,973	69,973
<b>Total.....</b>	<b>\$ 5,064,783</b>	<b>\$ -</b>	<b>\$ (871,642)</b>	<b>\$ 163,407</b>	<b>\$ 4,356,548</b>	<b>\$ 807,404</b>

**NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its fiscal year 2011 reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classification and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balance, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portion of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2012, the governmental fund balances consisted of the following:

<u>GOVERNMENTAL FUNDS</u>					
	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds	
<b>FUND BALANCES</b>					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	2,602,410	\$ 2,602,410	
Restricted for:					
Town capital projects.....	-	2,884,897	-	2,884,897	
School capital projects.....	-	-	1,563,007	1,563,007	
Other special revenue.....	-	-	74	74	
School gifts and grants.....	-	-	546,200	546,200	
School lunch.....	-	-	446,667	446,667	
School revolving.....	-	-	1,627,173	1,627,173	
Town gifts and grants.....	-	-	933,397	933,397	
Town revolving.....	-	-	1,250,361	1,250,361	
Permanent funds.....	-	-	2,097,530	2,097,530	
Assigned to:					
General government.....	-	-	-	-	
Public safety.....	-	-	-	-	
Education.....	-	-	-	-	
Public works.....	-	-	-	-	
Human services.....	-	-	-	-	
Library.....	-				
Unassigned.....	<u>7,800,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,800,848</u>
<b>TOTAL FUND BALANCES.....</b>	<b>\$ 8,617,084</b>	<b>\$ 2,884,897</b>	<b>\$ 11,066,819</b>	<b>\$ 22,568,800</b>	

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end the balance of the General Stabilization Fund is \$2,924,581 and is reported as unassigned fund balance within the General Fund.

#### **NOTE 10 - RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active employees.

**NOTE 11 - PENSION PLAN**

*Plan Description* - The Town contributes to the MCRS, a cost-sharing multiple-employer defined benefit pension plan administered by the Milton Contributory Retirement Board. Substantially all employees are members of the MCRS, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$7,361,000 million for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The MCRS provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Milton Contributory Retirement Board and are borne by the MCRS.

The MCRS issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the MCRS located at 525 Canton Avenue, Milton, Massachusetts, 02186.

At December 31, 2011, the MCRS's membership consists of the following:

Active members.....	355
Inactive members.....	70
Disabled members.....	40
Retirees and beneficiaries currently receiving benefits.....	<u>233</u>
Total.....	<u>698</u>

*Funding Policy* - Plan members are required to contribute to the MCRS at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the MCRS its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 99% of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

*Annual Pension Cost* - The Town contributions to the MCRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,293,000, \$4,104,631, and \$3,855,000, respectively, which equaled its required contribution for each fiscal year. At June 30, 2012, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011, actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salaries at rates ranging from 4.75% to 5.25% per year. The actuarial value of the MCRS's assets was determined using the fair value of the assets. The MCRS's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, is 11 years.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2011	\$ 87,479,107	\$ 113,132,039	\$ 25,652,932	77.3%	\$ 17,241,221	148.8%
1/1/2009	73,278,417	99,303,806	26,025,389	73.8%	17,341,534	150.1%
1/1/2007	74,305,047	92,325,220	18,020,173	80.5%	15,902,647	113.3%
1/1/2005	64,124,023	82,005,047	17,881,024	78.2%	14,024,744	127.5%

Funding progress is reported based on the biennial actuarial valuation performed by the MCRS, and is being accumulated on a biennial basis. The Town is responsible for approximately 99% of the unfunded liability.

## NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Fiscal year 2009 was the initial year that the Town has implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). As allowed by GASB 45, the Town has established the net Other Postemployment Benefits (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

*Plan Description* – The Town of Milton administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 70% percent of the general government’s and 95% of the school’s cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 30 or 5 percent of their premium costs. For fiscal year 2012, the Town contributed \$4 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s

annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 11,937,135
Interest on net OPEB obligation.....	894,631
Adjustment to annual required contribution.....	<u>(2,705,159)</u>
Annual OPEB cost (expense).....	10,126,607
Contributions made.....	<u>(3,995,331)</u>
Increase in net OPEB obligation.....	6,131,276
Net OPEB obligation--beginning of year.....	<u>22,365,771</u>
Net OPEB obligation--end of year.....	\$ <u>28,497,047</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 10,126,607	39%	\$ 28,497,047
6/30/2011	9,238,822	39%	22,365,771
6/30/2010	12,550,897	32%	16,685,496

*Funded Status and Funding Progress* – As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$107,528,122, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$42,214,723 and the ratio of the UAAL to the covered payroll was 255 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 9.8% initially, graded to 5% over 5 years. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2012 is 27 years.

### NOTE 13 - COMMITMENTS

The Town is committed to expend \$11,788,984 for the various projects listed below.

Purpose	Amount
Various capital.....	\$ 1,776,577
Sewer system rehab.....	42,007
Water rehab.....	500,000
Sewer system upgrades.....	500,000
Surface drain system.....	500,000
Wind turbines.....	4,850,000
Sewer capital needs.....	240,400
Medical expenses.....	1,700,000
Sewer system improvements.....	500,000
Water system improvements.....	1,180,000
Total.....	<u>\$ 11,788,984</u>

### NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

### NOTE 15 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- The GASB issued Statement #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53, which was implemented in fiscal year 2012 and did not impact the financial statements.

- The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which was implemented in fiscal year 2012 and did not impact the financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, which is required to be implemented in fiscal year 2013. Management is currently assessing the impact this pronouncement will have on the basic financial statements.
- The GASB issued Statement #67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2014.
- The GASB issued 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.

Management is currently assessing the impact the implementation of these standards will have on the Basic Financial Statements.

## ***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts				
	Amounts Carried forward From Prior Year	Current Year		Original Budget	Final Budget
		Initial Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ -	62,969,662	\$ 62,969,662	\$ 62,969,662	\$ 62,969,662
Motor vehicle and other excise taxes.....	-	2,703,000	2,703,000	2,703,000	2,703,000
Penalties and interest on taxes.....	-	500,000	500,000	500,000	500,000
Intergovernmental.....	-	8,818,025	8,818,025	8,818,025	8,818,025
Departmental and other.....	-	2,239,000	2,239,000	2,239,000	2,239,000
Investment income.....	-	60,000	60,000	60,000	60,000
Miscellaneous.....	-	-	-	-	-
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>77,289,687</b>	<b>77,289,687</b>	<b>77,289,687</b>	<b>77,289,687</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	226,053	3,827,188	4,053,241	4,184,126	
Public safety.....	35,192	10,936,928	10,972,120	10,993,176	
Education.....	88,871	34,828,857	34,917,728	34,821,727	
Public works.....	625,484	4,963,411	5,588,895	5,504,671	
Human services.....	562	415,568	416,130	568,021	
Library.....	-	1,053,477	1,053,477	1,043,177	
Culture and recreation.....	-	380,720	380,720	380,720	
Pension benefits.....	-	4,292,671	4,292,671	4,292,671	
Employee benefits.....	-	10,513,753	10,513,753	10,513,753	
State and county charges.....	-	3,324,446	3,324,446	3,324,446	
Capital outlay.....	-	16,000	16,000	16,000	16,000
Debt service:					
Principal.....	-	2,296,379	2,296,379	2,296,379	
Interest.....	-	1,354,204	1,354,204	1,354,204	
<b>TOTAL EXPENDITURES.....</b>	<b>976,162</b>	<b>78,203,602</b>	<b>79,179,764</b>	<b>79,293,071</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.</b>	<b>(976,162)</b>	<b>(913,915)</b>	<b>(1,890,077)</b>	<b>(2,003,384)</b>	
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	-	1,908,117	1,908,117	1,908,117	
Transfers out.....	-	(994,202)	(994,202)	(1,077,398)	
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>913,915</b>	<b>913,915</b>	<b>830,719</b>	
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(976,162)</b>	<b>-</b>	<b>(976,162)</b>	<b>(1,172,665)</b>	
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>3,569,440</b>	<b>3,569,440</b>	<b>3,569,440</b>	<b>3,569,440</b>	
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 2,593,278</b>	<b>\$ 3,569,440</b>	<b>\$ 2,593,278</b>	<b>\$ 2,396,775</b>	

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
\$	63,404,261	\$ -	\$ 434,599
	2,877,388	-	174,388
	552,023	-	52,023
	9,321,739	-	503,714
	2,501,379	-	262,379
	35,905	-	(24,095)
	<u>54,224</u>	<u>-</u>	<u>54,224</u>
	<u>78,746,919</u>	<u>-</u>	<u>1,457,232</u>
	3,629,409	325,134	229,583
	10,965,136	25,480	2,560
	34,794,582	27,145	-
	4,822,420	432,203	250,048
	542,865	2,122	23,034
	1,036,731	4,152	2,294
	380,280	-	440
	4,292,671	-	-
	10,387,854	-	125,899
	3,271,591	-	52,855
	15,079	-	921
	<u>2,296,379</u>	<u>-</u>	<u>-</u>
	<u>1,339,853</u>	<u>-</u>	<u>14,351</u>
	<u>77,774,850</u>	<u>816,236</u>	<u>701,985</u>
	<u>972,069</u>	<u>(816,236)</u>	<u>2,159,217</u>
	1,908,117	-	-
	<u>(1,077,398)</u>	<u>-</u>	<u>-</u>
	<u>830,719</u>	<u>-</u>	<u>-</u>
	1,802,788	(816,236)	2,159,217
	<u>3,569,440</u>	<u>-</u>	<u>-</u>
\$	<u>5,372,228</u>	<u>\$ (816,236)</u>	<u>\$ 2,159,217</u>

# ***Retirement System Schedules of Funding Progress and Employer Contributions***

The Retirement System Schedule of Funding progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

**MILTON CONTRIBUTORY RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

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Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 87,479,107	\$ 113,132,039	\$ 25,652,932	77.3%	\$ 17,241,221	148.8%
01/01/09	73,278,417	99,303,806	26,025,389	73.8%	17,341,534	150.1%
01/01/07	74,305,047	92,325,220	18,020,173	80.5%	15,902,647	113.3%
01/01/05	64,124,023	82,005,047	17,881,024	78.2%	14,024,744	127.5%
01/01/03	56,388,022	76,045,844	19,657,822	74.2%	13,420,717	146.5%

See notes to required supplementary information.

**MILTON CONTRIBUTORY RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

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Fiscal Year Ended June 30	System Wide			Town of Milton	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2012	\$ 4,317,807	\$ 4,317,807	100%	\$ 4,292,671	99.42%
2011	4,126,219	4,126,219	100%	4,104,631	99.48%
2010	3,874,870	3,874,870	100%	3,855,014	99.49%
2009	3,702,589	3,702,589	100%	3,683,288	99.48%
2008	3,512,664	3,512,664	100%	3,497,727	99.57%
2007	3,352,827	3,352,827	100%	3,335,093	99.47%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

# ***Other Postemployment Benefits Plan Schedules***

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2010	\$ -	\$ 107,528,122	\$ 107,528,122	0%	\$ 42,214,723	254.7%
7/1/2008	-	126,940,430	126,940,430	0%	40,180,581	315.9%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2012	\$ 10,126,607	\$ 3,995,331	39%
2011	9,238,821	3,558,546	39%
2010	12,550,898	4,027,412	32%
2009	12,026,890	3,864,879	32%

The Town implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

**FISCAL YEAR ENDED JUNE 30, 2012**

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Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.5%, closed
Remaining amortization period.....	28 years as of July 1, 2010

Actuarial Assumptions:

Investment rate of return.....	4.0%, pay-as-you-go scenario
Medical/drug cost trend rate.....	9.8% graded to 5.0% over 5 years.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	947
Current active members.....	<u>292</u>
Total	<u><u>1,239</u></u>

See notes to required supplementary information.

**NOTE A - BUDGETARY BASIS OF ACCOUNTING****1. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by the Warrant Committee. The Warrant Committee presents an annual budget to the Town Meeting Representatives (Representatives), which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Representatives, who have full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Representative approval via a supplemental appropriation.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Representatives.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget authorized approximately \$80 million in appropriations and other amounts to be raised. Included in this amount were carry forwards from prior years and continuing appropriations. During fiscal year 2012, Town Meeting voted to increase the budget approximately \$197,000.

The Town Accountant's Office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

## 2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$ -	-
<b>Perspective difference:</b>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		397,446
<b>Basis of accounting differences:</b>		
Net change in recording 60 day receipts.....	85,755	
Tax refunds payable.....	(36,000)	
Non recurring miscellaneous revenue.....	620	
Recognition of revenue for on-behalf payments.....	7,361,000	
Recognition of expenditures for on-behalf payments.....	<u>(7,361,000)</u>	
Net change in fund balance - GAAP basis.....	\$ <u>447,821</u>	

## **NOTE B – PENSION PLAN**

The Town contributes to the MCRS, a cost-sharing multiple-employer defined benefit pension plan administered by the Milton Contributory Retirement Board. Substantially all employees are members of the MCRS, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$7.4 million for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The schedule of funding progress, presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

## **NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

Projections of benefits for financial reporting purposes are based on the substantive plan 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.