

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2013

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

TABLE OF CONTENTS

Independent Auditor's Report	i
Management's Discussion and Analysis	iii
Basic Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Position	1
Statement of Activities	2
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	4
Reconciliation of Statement of Revenues, Expenditures, and Changes in – Governmental Funds to Statement of Activities	5
Statement of Net Position – Proprietary Funds	6
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	7
Statement of Cash Flows – Propriety Funds	8
Statement of Fiduciary Net Position – Fiduciary Funds	9
Statement of Changes in Fiduciary Net Position – Fiduciary funds	10
Notes to Financial Statements	11
Supplementary Information	
Budgetary Comparison Schedule – General Fund	37
Note to Budgetary Comparison Schedule – General Fund	38
Schedule of Funding Progress for the Town's Retiree Benefit Plan	39

INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Selectmen
Town of Middleborough, 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 Middleborough, Massachusetts (the Town), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Municipal Gas and Electric Department, a major enterprise fund, which represent 67% and 84%, respectively, of the assets and operating revenues of the Town's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for the Municipal Gas and Electric Department, is based solely on the report of the other auditors. 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. The financial statements of the Municipal Gas and Electric Department were not audited in accordance with *Government Auditing Standards*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

The accompanying financial statements do not include all disclosures for the Municipal Gas and Electric Enterprise Fund, as required by generally accepted accounting principles. Such information can be found in separate financial statements for the year ended December 31, 2012, which was audited by other auditors.

In our opinion, based on our audit and the report of other auditors, and except for the information in the preceding paragraph, 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 Middleborough, Massachusetts as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages iii through x and 37 through 39 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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June xx, 2014 on our consideration of the Town's 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 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* in considering the Town's internal control over financial reporting and compliance.

Norwell, MA
June xx, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

As management of the Town of Middleborough (the Town), we offer the Town's financial statement readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013.

Financial Highlights:

- The assets of the Town exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by over \$97.6 million (net position). Of this amount, approximately \$13.6 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total cost of all Town services for fiscal year 2013 was \$117.2 million.
- As of the end of the current fiscal year, unassigned fund balance for the general fund was \$2.2 million or approximately 3.3% of general fund expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

The Gas and Electric Enterprise Fund is a regulated municipal electric and gas utility that issues separately audited financial statements as of, and for, the year ended December 31. Another auditor, whose report has been furnished to us, audited these financial statements. These financial statements have been included in the Town's reporting entity and the financial position as of December 31, 2012, and the results of operations for the year then ended are included in the Town's entity-wide financial statements. A copy of the audited financial statements for the Middleborough Gas and Electric Department may be obtained at the department's administrative office located at 32 South Main Street, Middleborough, Massachusetts 02346.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Town's assets, liabilities and deferred inflows of resources, with the remaining balance reported as net position. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, education, public works, health and human services, culture and recreation, and general administrative services. The Town's business-type activities include the water enterprise, sewer enterprise, trash enterprise fund and the Gas & Electric Department.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. The remaining funds are combined into aggregate funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the Town Accountant's office.

The basic governmental fund financial statements can be found in the accompanying pages of this report.

Proprietary funds: The Town of Middleborough maintains four proprietary funds, the Water Enterprise Fund, the Sewer Enterprise Fund, the Trash Enterprise Fund and the Gas & Electric Department Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer and gas & electric operations.

The basic proprietary fund financial statements can be found in the accompanying pages of this report.

Fiduciary funds: *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's programs.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

The basic fiduciary fund financial statements can be found in the accompanying pages of this report.

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. The notes to the financial statements follow the basic financial statements described above.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Middleborough, assets exceeded liabilities and deferred inflows by \$35.1 million and \$62.5 million for the governmental and business-type activities, respectively, at the close of the most recent fiscal year. The following tables demonstrate the net position of the Town:

	FY2013	FY2012	FY2013	FY2012
	Governmental	Governmental	Business-type	Business-type
	Activities	Activities	Activities	Activities
Current assets	\$ 28,686,654	\$ 28,221,650	\$ 64,068,606	\$ 60,114,527
Capital assets	<u>68,660,158</u>	<u>68,361,628</u>	<u>40,597,862</u>	<u>40,673,869</u>
Total assets	97,346,812	96,583,278	104,666,468	100,788,396
Current liabilities	10,243,835	8,988,359	5,165,335	4,704,621
Long-term liabilities	<u>50,081,585</u>	<u>49,384,137</u>	<u>36,991,670</u>	<u>37,612,013</u>
Total liabilities	60,325,420	58,372,496	42,157,005	42,316,634
Deferred revenue	<u>1,885,799</u>	<u>1,148,191</u>	-	-
Total deferred inflows of resources	1,885,799	1,148,191	-	-
Net Position:				
Net investment in capital assets	42,965,356	43,010,430	29,183,348	28,194,736
Restricted	8,306,181	7,780,965	3,542,491	2,828,476
Unrestricted	<u>(16,135,944)</u>	<u>(13,728,804)</u>	<u>29,783,624</u>	<u>27,448,550</u>
Total net position	<u>\$ 35,135,593</u>	<u>\$ 37,062,591</u>	<u>\$ 62,509,463</u>	<u>\$ 58,471,762</u>

For governmental activities cash and net receivable balances changed modestly in comparison to the prior year. Included within the governmental activity current assets is \$1,885,799 in state highway construction grants receivable and \$5,619,494 due from the Massachusetts School Building Authority. New capital asset acquisitions approximating \$3.9 million were offset by depreciation of \$3.6 million in fiscal year 2013. Governmental activity long-term liabilities include \$20.4 million (\$23.0 million total) in general obligation bonds and other post employment benefits liability of \$25.6 million, which is an increase \$3.1 million from last year. The balance of bonds of \$2.6 million is classified as current because it is due within the next fiscal year.

For business-type activities cash and cash equivalents increased approximately \$4.0 million from the previous year resulting primarily from a \$3.3 million increase in cash and cash equivalents of the gas and electric enterprise fund. Unrestricted net position increased \$2.3

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

million related primarily to gas and electric enterprise activity. Business-type activity long-term liabilities include gas and electric enterprise activity liabilities of \$25.4 million and bonds payable of the water and sewer enterprise funds totaling \$10.3 million. The balance of the water and sewer bonds of \$966,297 is classified as current because it is due within the next fiscal year.

The largest portion of the Town's total net position \$72.1 million (73.9%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's total net position \$11.8 million (12.1%) represents resources that are subject to restrictions placed on how they may be used. The remaining balance of unrestricted net position, \$13.6 million (14.0%), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net position, except for unrestricted governmental activities. Negative unrestricted net position of (\$16.1 million) is a direct result of unfunded other post employment benefit ("OPEB") obligations.

Governmental activities decreased the Town's net position by \$1,926,998 during fiscal year 2013. Business-type activities increased net position by \$4,037,701. Transfers of indirect costs between governmental activities and business-type activities were eliminated. A summary of revenues and major functional expenditures is presented below.

Key elements of changes are as follows:

Revenues:

- ◆ Operating grants and contributions make up the largest share or program revenues representing, approximately 40%, of the Town's governmental revenue. Included in this amount are intergovernmental revenues from the Commonwealth of Massachusetts and the federal government classified as program revenues.
- ◆ Property taxes represent approximately 46% of the Town's governmental revenue.
- ◆ 99% of the Town's revenue from business-type activities is attributable to charge for services

Expenses:

- ◆ Overall the primary government expenses were consistent with the prior year with an increase of \$17,344 (.02% increase)
- ◆ Overall the expenses for Business Type Activities decreased by \$6.8 million due to a \$7.7 million decrease in the Gas and Electric expenses, which resulted from lower revenue from reduced purchases of electricity
- ◆ Employee salary costs increased from negotiated step and general wage increases.
- ◆ Employee benefit costs decreased in the current year by \$1.1 million due to smaller increases in the OPEB liability based on the actuarial calculation

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

- ◆ The cost of education services increased by \$0.3 million, due to negotiated wage settlements and employee health insurance cost increases

	FY2013	FY2012
	Governmental	Governmental
	Activities	Activities
Program revenues:		
Charge for services	\$ 3,255,170	\$ 4,389,845
Operating grants and contributions	29,238,531	30,863,548
Capital grants and contributions	730,736	31,446
General revenues:		
Property taxes, net of allowances	33,797,725	32,261,993
Excise taxes	2,926,429	2,822,405
Penalties and interest	381,311	366,242
Grant and contributions not restricted	2,657,900	2,358,266
Investment income	125,973	98,482
Gain (loss) on disposal of asset	-	(30,915)
Transfers, Net	<u>(199,757)</u>	<u>-</u>
Total revenues	72,914,018	73,161,312
Expenses:		
General government	3,596,022	3,377,032
Public safety	7,674,636	7,554,818
Education	40,021,476	39,714,262
Public works	2,547,442	2,476,446
Health and human services	1,726,987	1,711,510
Culture and recreation	1,316,903	1,346,556
Interest on long-term debt	952,069	989,053
Employee benefits	14,778,152	15,869,333
Intergovernmental	<u>2,227,329</u>	<u>1,784,662</u>
Total expenses	<u>74,841,016</u>	<u>74,823,672</u>
Change in net position	<u>\$ (1,926,998)</u>	<u>\$ (1,662,360)</u>

	FY2013	FY2012
	Business-Type	Business-Type
	Activities	Activities
Program revenues:		
Charge for services	\$ 46,124,475	\$ 53,051,859
Investment income	123,144	142,310
Disaster recovery loss, net	-	(39,675)
Gain (loss) on disposal of asset	-	(46)
Transfers, Net	<u>146,824</u>	<u>197,467</u>
Total revenues	46,394,443	53,351,915
Expenses:		
Water	3,247,015	2,463,809
Sewer	1,585,313	1,474,157
Trash	1,290,530	1,193,763
Gas & Electric	<u>36,233,884</u>	<u>44,003,546</u>
Total expenses	<u>42,356,742</u>	<u>49,135,275</u>
Change in net position	<u>\$ 4,037,701</u>	<u>\$ 4,216,640</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

Financial Analysis of the Government's Funds

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

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. Fund balance for governmental funds is reported in a classification hierarchy, which is based upon the extent to which the government is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. These classifications are nonspendable, restricted, committed, assigned and unassigned fund balance.

In particular, unassigned fund balance represents the residual fund balance which has not been restricted, committed, or assigned to a purpose within that fund. The general fund is the only fund which should report a positive unassigned fund balance. Any negative unassigned fund balance represents expenditures incurred for specific purposes which exceeded the amounts restricted, committed, or assigned for that purpose.

At the end of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$7.9 million. The governmental funds' combined ending fund balances were reported in the following classification: nonspendable fund balance of \$412,921, restricted fund balance of \$5.6 million, committed fund balance of \$1.4 million, assigned fund balance of \$636,335 and unassigned fund balance deficit of (\$222,513)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the general fund reported aggregate fund balance of \$4.3 million, including stabilization funds of \$1.3 million and debt service stabilization fund of \$898,936. Committed fund balance of \$1.4 million and assigned fund balance of \$636,335 represent 34% and 15% of total general fund balance, respectively. Unassigned fund balance of \$2.2 million represents 51% of total general fund balance. 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 3.3% of total general fund expenditures, while total fund balance represents 6.4% of that same amount.

General Fund Budgetary Highlights

The Town adopts an annual budget for its general fund and for its enterprise funds. A budgetary comparison statement has been provided for the general fund.

The difference between the original expenditure budget of \$67.9 million and the final amended budget of \$66.0 million can be briefly summarized as follows:

- ◆ About \$2.7 million is reduced from the original budget figure for continuing appropriations, operating budgets and teacher summer salaries into future periods.
- ◆ Approximately \$0.8 million of budgeted expenditures were added to the budget by Special Town Meeting action.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for governmental activities, as of June 30, 2013, amounts to \$68.6 million, which is net of accumulated depreciation of \$61.6 million. The Town's investment in capital assets for business-type activities, as of June 30, 2013, amount to \$40.5 million, which is net of accumulated depreciation of \$58.7 million. Investments in capital assets include land, machinery and equipment and infrastructure.

The table below represents a summary of the Town's capital assets, net of accumulated depreciation by category (in thousands):

Capital Assets	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land, arts and treasures	\$ 10,989	\$ 10,832	\$ 1,120	\$ 1,120
Construction in process	639	206	4,433	3,713
Buildings and related improvements	38,533	40,056	623	660
Equipment, machinery, and vehicles	3,294	2,156	1,469	1,736
Books and software	523	807		
Gas & electric utility			16,544	16,440
Infrastructure	<u>14,682</u>	<u>14,305</u>	<u>16,393</u>	<u>16,983</u>
	<u>\$ 68,660</u>	<u>\$ 68,362</u>	<u>\$ 40,582</u>	<u>\$ 40,652</u>

Additions to the Town's capital assets for governmental activities during 2013 included \$1,172,511 for roads, \$1,143,453 for equipment and machinery, and \$869,387 for vehicles. During the current year governmental activities disposed of machinery and equipment of \$131,823 and \$229,105 for vehicles. Additions to the Town's business-type activity capital assets included \$2.7 million for gas and electric department assets and for the other enterprise funds of water, sewer and trash \$49,567 for equipment and machinery and \$719,863 for construction in progress.

Long-term debt

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$23.0 and \$11.2 million for the governmental and business-type activities, respectively. This is compared to \$25.4 and \$12.2 million, respectively, last year. All debt is a general obligation of the Town. The Town maintains an A-2 rating from Moody's Investors Service.

Economic Factors and Next Year's Budgets and Rates

- ◆ The Town has increased its property tax levy by 2 ½% provided under Proposition 2 ½ and by new growth as determined by the municipal revenue growth factor; the total levy increased 4.16% from \$33.2 million for FY 13 to \$34.6 million for FY 14.
- ◆ The Town's operating budget continues to increase over the FY 2013 budget. Salary increases averaging 2% through collective bargaining agreements and increases in health insurance premiums are the presiding factors in the increased budget.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2013

Requests for Information

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

Town of Middleborough
Attn: Town Accountant
20 Centre Street
Middleborough, MA 02346.

DRAFT

BASIC FINANCIAL STATEMENTS

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Statement of Net Position

June 30, 2013

(except for the Municipal Gas and Electric Enterprise Fund,
which is as of December 31, 2012)

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 14,861,388	\$ 53,865,012	\$ 68,726,400
Receivables, net of allowance for uncollectible	13,825,266	7,754,495	21,579,761
Inventory		1,823,906	1,823,906
Prepaid expenses		625,193	625,193
Capital assets, net of accumulated depreciation	68,660,158	40,582,314	109,242,472
Investments in associated companies		15,548	15,548
Total assets	<u>\$ 97,346,812</u>	<u>\$ 104,666,468</u>	<u>\$ 202,013,280</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 1,520,497	\$ 2,396,905	\$ 3,917,402
Salaries payable and employee withholdings	2,294,943	1,162,533	3,457,476
Accrued interest payable	376,700	89,600	466,300
Provision for refund of paid taxes	232,362		232,362
Notes payable	3,233,942	550,000	3,783,942
Noncurrent liabilities			
Due within one year	2,585,391	966,297	3,551,688
Due in more than one year	50,081,585	36,991,670	87,073,255
Total liabilities	60,325,420	42,157,005	102,482,425
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred revenue	1,885,799		1,885,799
Total deferred inflows of resources	1,885,799		1,885,799
<u>NET POSITION</u>			
Net investment in capital assets	42,965,356	29,183,348	72,148,704
Restricted	8,306,181	3,542,491	11,848,672
Unrestricted	(16,135,944)	29,783,624	13,647,680
Total net position	<u>35,135,593</u>	<u>62,509,463</u>	<u>97,645,056</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 97,346,812</u>	<u>\$ 104,666,468</u>	<u>\$ 202,013,280</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2013

(except of the Municipal Gas and Electric Enterprise Fund, which is for the year ended December, 31, 2012)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government							
Governmental activities:							
General government	\$ 3,596,022	\$ 1,192,593	\$ 180,695	\$ 5,241	\$ (2,217,493)		\$ (2,217,493)
Public safety	7,674,636	437,786	186,787		(7,050,063)		(7,050,063)
Education	40,021,476	1,057,510	25,831,326	687,266	(12,445,374)		(12,445,374)
Public works	2,547,442	95,055	810,811	9,229	(1,632,347)		(1,632,347)
Health and human services	1,726,987	377,401	835,995	29,000	(484,591)		(484,591)
Culture and recreation	1,316,903	94,825	79,480		(1,142,598)		(1,142,598)
Interest on long-term debt	952,069		1,313,437		361,368		361,368
Employee benefits and general insurance	14,778,152				(14,778,152)		(14,778,152)
Intergovernmental	2,227,329				(2,227,329)		(2,227,329)
Total governmental activities	74,841,016	3,255,170	29,238,531	730,736	(41,616,579)		(41,616,579)
Business-type activities							
Water	3,247,015	4,395,316				1,148,301	1,148,301
Sewer	1,585,313	2,128,285				542,972	542,972
Trash	1,290,530	1,046,264				(244,266)	(244,266)
Gas and Electric	36,233,884	38,554,610				2,320,726	2,320,726
Total business-type activities	42,356,742	46,124,475				3,767,733	3,767,733
Total primary government	\$ 117,197,758	\$ 49,379,645	\$ 29,238,531	\$ 730,736	(41,616,579)	3,767,733	(37,848,846)
General revenues							
Property taxes and payments in lieu, net of allowance for uncollectible					33,797,725		33,797,725
Excise taxes					2,926,429		2,926,429
Penalties and interest on taxes					381,311		381,311
Grants and contributions not restricted to specific programs					2,657,900		2,657,900
Investment income					125,973	123,144	249,117
Transfers, net					(199,757)	146,824	(52,933)
Total general revenues, special items and transfers					39,689,581	269,968	39,959,549
Change in net position					(1,926,998)	4,037,701	2,110,703
Net position, - beginning of year					37,062,591	58,471,762	95,534,353
Net position - end of year					\$ 35,135,593	\$ 62,509,463	\$ 97,645,056

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 7,439,472	\$ 7,421,916	\$ 14,861,388
Receivables	10,079,968	4,165,868	14,245,836
Total assets	<u>\$ 17,519,440</u>	<u>\$ 11,587,784</u>	<u>\$ 29,107,224</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 1,002,917	\$ 517,580	\$ 1,520,497
Salaries payable and employee withholdings	2,238,366	56,577	2,294,943
Provision for refund of paid taxes	232,362		232,362
Notes payable		3,233,942	3,233,942
Total liabilities	3,473,645	3,808,099	7,281,744
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred revenue	9,786,413	4,165,868	13,952,281
Total deferred inflows of resources	9,786,413	4,165,868	13,952,281
<u>FUND BALANCES</u>			
Nonspendable		412,921	412,921
Restricted		5,613,190	5,613,190
Committed	1,433,266		1,433,266
Assigned	636,335		636,335
Unassigned	2,189,781	(2,412,294)	(222,513)
Total fund balances	<u>4,259,382</u>	<u>3,613,817</u>	<u>7,873,199</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 17,519,440</u>	<u>\$ 11,587,784</u>	<u>\$ 29,107,224</u>
Amounts reported for governmental activities in the statement of net position are different because:			
Total fund balances of governmental funds			\$ 7,873,199
Capital assets used in governmental activities are not financial resources and not reported in funds.			68,660,158
Other long-term assets are not available to pay for current-period expenditures and are deferred in funds.			12,066,482
Reporting of assets on a full accrual basis requires an estimate for uncollectible accounts.			(420,570)
Long-term liabilities are not due and payable in the current period and are not included in funds.			(52,666,976)
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.			<u>(376,700)</u>
Net position of governmental activities			<u>\$ 35,135,593</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 33,364,962	\$ 208,992	\$ 33,573,954
Excise taxes	2,770,098		2,770,098
Licenses and permits	537,710	5,304	543,014
Penalties and interest	381,311		381,311
Investment income	124,889	21,958	146,847
Charges for services	50,891	732,533	783,424
Fines and fees	261,601		261,601
Contributions		173,187	173,187
Departmental and other	768,563	1,575,445	2,344,008
Intergovernmental	27,791,785	4,842,709	32,634,494
Total revenues	<u>66,051,810</u>	<u>7,560,128</u>	<u>73,611,938</u>
Expenditures			
Current:			
General government	3,278,136	262,931	3,541,067
Public safety	6,901,383	730,260	7,631,643
Education	34,914,738	5,428,524	40,343,262
Public works	1,420,343	1,670,419	3,090,762
Human services	1,411,968	274,019	1,685,987
Employee benefits and general insurance	11,631,314		11,631,314
Culture and recreation	823,539	129,735	953,274
Intergovernmental	2,227,329		2,227,329
Debt service	3,522,942		3,522,942
Total expenditures	<u>66,131,692</u>	<u>8,495,888</u>	<u>74,627,580</u>
Revenues over (under) expenditures	(79,882)	(935,760)	(1,015,642)
Other financing sources (uses)			
Bond proceeds		200,000	200,000
Transfers in from other funds	412,178	170,000	582,178
Transfers out to other funds	(370,000)	(411,935)	(781,935)
Total other financing sources	<u>42,178</u>	<u>(41,935)</u>	<u>243</u>
Revenues and other financing sources over expenditures and other financing uses	(37,704)	(977,695)	(1,015,399)
Fund balance, beginning of year	<u>4,297,086</u>	<u>4,591,512</u>	<u>8,888,598</u>
Fund balance, end of year	<u>\$ 4,259,382</u>	<u>\$ 3,613,817</u>	<u>\$ 7,873,199</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Governmental Funds to Statement of Activities
 For the Year Ended June 30, 2013

Revenues and other financing sources over expenditures and other financing uses	\$	(1,015,399)
<p>Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the Statement of Activities.</p>		
Capital outlays during the fiscal year		3,881,141
Depreciation recorded for the fiscal year		(3,582,611)
<p>Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.</p>		
Net change in deferred revenue		(466,292)
Net change in allowance for uncollectible accounts		(31,870)
<p>The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.</p>		
Principal payments on long-term debt		2,566,172
Proceeds from issuance of long-term debt		(200,000)
<p>The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.</p>		
Net change in accrued interest expense		4,700
<p>Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:</p>		
Compensated absences		64,000
Net OPEB Obligation		(3,146,839)
Change in net position of governmental activities	\$	<u>(1,926,998)</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Statement of Net Position - Proprietary Funds

June 30, 2013

(except for the Gas Electric Department,
which is as of December 31, 2012)

Business-Type Activities

	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Gas & Electric</u>	<u>Totals</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 5,393,530	\$ 3,024,494	\$ 283,953	\$ 45,163,035	\$ 53,865,012
Receivables, net of allowance for uncollectible	1,303,663	675,119	145,993	5,629,720	7,754,495
Inventory				1,823,906	1,823,906
Prepaid expenses				625,193	625,193
Capital assets, net of accumulated depreciation	19,252,868	4,450,461	334,181	16,544,804	40,582,314
Investments in associated companies				15,548	15,548
Total assets	<u>\$ 25,950,061</u>	<u>\$ 8,150,074</u>	<u>\$ 764,127</u>	<u>\$ 69,802,206</u>	<u>\$ 104,666,468</u>
<u>LIABILITIES</u>					
Accounts payable and other current liabilities	\$ 94,458	\$ 32,342	\$ 10,649	\$ 2,259,456	\$ 2,396,905
Salaries payable and employee withholdings	9,262	4,978	5,360	1,142,933	1,162,533
Accrued interest payable	72,100	17,500			89,600
Notes payable	150,000	400,000			550,000
Noncurrent liabilities					
Due within one year	766,297	200,000			966,297
Due in more than one year	8,824,370	2,497,890	234,420	25,434,990	36,991,670
Total liabilities	<u>9,916,487</u>	<u>3,152,710</u>	<u>250,429</u>	<u>28,837,379</u>	<u>42,157,005</u>
<u>NET POSITION</u>					
Net investment in capital assets	10,401,061	1,903,302	334,181	16,544,804	29,183,348
Restricted				3,542,491	3,542,491
Unrestricted	<u>5,632,513</u>	<u>3,094,062</u>	<u>179,517</u>	<u>20,877,532</u>	<u>29,783,624</u>
Total net position	<u>16,033,574</u>	<u>4,997,364</u>	<u>513,698</u>	<u>40,964,827</u>	<u>62,509,463</u>
Total liabilities and net position	<u>\$ 25,950,061</u>	<u>\$ 8,150,074</u>	<u>\$ 764,127</u>	<u>\$ 69,802,206</u>	<u>\$ 104,666,468</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2013
(except for the Gas & Electric Department, which is for the year ended December 31, 2012)

	Business-Type Activities				
	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Gas & Electric</u>	<u>Totals</u>
Operating revenues					
Charges for service	\$ 4,395,316	\$ 2,122,285	\$ 1,042,097	\$ 38,554,610	\$ 46,114,308
Departmental and other		6,000	4,167		10,167
Total operating revenues	4,395,316	2,128,285	1,046,264	38,554,610	46,124,475
Operating expenses					
Salaries, wages and employee benefits	1,473,117	749,909	908,871	3,617,104	6,749,001
Administrative and general - gas & electric				2,666,692	2,666,692
Expenses	661,692	509,561	239,797	27,352,638	28,763,688
Depreciation and amortization	586,602	215,705	141,862	2,597,450	3,541,619
Total operating expenses	2,721,411	1,475,175	1,290,530	36,233,884	41,721,000
Operating income	1,673,905	653,110	(244,266)	2,320,726	4,403,475
Non operating revenues (expenses)					
Investment income	9,089	6,540	413	107,102	123,144
Interest expense	(525,604)	(110,138)			(635,742)
Total non operating revenue, net	(516,515)	(103,598)	413	107,102	(512,598)
Income (loss) before transfers and contributions	1,157,390	549,512	(243,853)	2,427,828	3,890,877
Transfers:					
Transfers in				714,015	714,015
Transfers out	(243)			(566,948)	(567,191)
	(243)			147,067	146,824
Change in net position	1,157,147	549,512	(243,853)	2,574,895	4,037,701
Net position - beginning of year	14,876,427	4,447,852	757,551	38,389,932	58,471,762
Net position - end of year	\$ 16,033,574	\$ 4,997,364	\$ 513,698	\$ 40,964,827	\$ 62,509,463

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2013

(except for the Gas & Electric Department,
which is for the year ended December 31, 2012)

	Business-Type Activities				
	<u>Water</u>	<u>Sewer</u>	<u>Trash</u>	<u>Gas & Electric</u>	<u>Total</u>
Cash flows from operating activities:					
Receipts from customers and users	\$ 4,383,392	\$ 2,072,773	\$ 1,039,426	\$ 39,133,838	\$ 46,629,429
Payments to employees and for related benefits	(1,371,510)	(721,934)	(718,681)	(8,336,149)	(11,148,274)
Payments to vendors	(638,267)	(489,142)	(243,511)	(25,981,817)	(27,352,737)
Other revenues		6,000	4,167		10,167
Net cash provided by operating activities	<u>2,373,615</u>	<u>867,697</u>	<u>81,401</u>	<u>4,815,872</u>	<u>8,138,585</u>
Cash flows from non-capital activities:					
Payment to the Town of Middleborough				(525,933)	(525,933)
Transfers	(243)				(243)
Net cash used for non-capital financing activities	<u>(243)</u>			<u>(525,933)</u>	<u>(526,176)</u>
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(630,271)	(139,159)		(2,702,025)	(3,471,455)
Proceeds from notes		400,000			400,000
Principal payments on bonds and notes	(875,480)	(200,848)			(1,076,328)
Interest paid	(500,504)	(110,138)			(610,642)
Net cash used for capital and related financing activities	<u>(2,006,255)</u>	<u>(50,145)</u>		<u>(2,702,025)</u>	<u>(4,758,425)</u>
Cash flows from investing activities					
Investment income	9,089	6,540	413	107,102	123,144
Reserve trust fund				6,561	6,561
Pension benefits obligation				843,460	843,460
Net other post employment benefits obligations				700,000	700,000
Redemption of investment shares				5,843	5,843
Net cash provided by investing activities	<u>9,089</u>	<u>6,540</u>	<u>413</u>	<u>1,662,966</u>	<u>1,679,008</u>
Net increase (decrease) in cash and cash equivalents	376,206	824,092	81,814	3,250,880	4,532,992
Cash and cash equivalents at beginning of year	<u>5,017,324</u>	<u>2,200,402</u>	<u>202,139</u>	<u>41,912,155</u>	<u>49,332,020</u>
Cash and cash equivalents at end of year	<u>\$ 5,393,530</u>	<u>\$ 3,024,494</u>	<u>\$ 283,953</u>	<u>\$ 45,163,035</u>	<u>\$ 53,865,012</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 1,673,905	\$ 653,110	\$ (244,266)	\$ 2,320,726	\$ 4,403,475
Adjustments to reconcile operating income to net cash provided by operating activities:					
Non-cash payment in lieu of taxes				(27,000)	(27,000)
Depreciation and amortization	586,602	215,705	141,862	2,597,450	3,541,619
Changes in assets and liabilities:					
User fees receivable	(11,924)	(49,512)	(2,671)	579,228	515,121
Prepaid expenses and other assets				(30,701)	(30,701)
Inventories				94,493	94,493
Accounts payable, employee, and accrued expenses	125,032	48,394	186,476	105,515	465,417
Net other postemployment benefits obligation				159,810	159,810
Rate stabilization				(983,649)	(983,649)
Total adjustments	<u>699,710</u>	<u>214,587</u>	<u>325,667</u>	<u>2,495,146</u>	<u>3,735,110</u>
Net cash provided by operating activities	<u>\$ 2,373,615</u>	<u>\$ 867,697</u>	<u>\$ 81,401</u>	<u>\$ 4,815,872</u>	<u>\$ 8,138,585</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Statement of Net Position - Fiduciary Funds

June 30, 2013

	<u>Private</u>	<u>Other</u>	
	<u>Purpose Trust</u>	<u>Post-Employment</u>	
	<u>Funds</u>	<u>Benefits</u>	<u>Agency</u>
		<u>Trust Fund</u>	<u>Accounts</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 182,061	\$ 200,000	\$ 2,328,469
Receivables			37,097
Total assets	<u>\$ 182,061</u>	<u>\$ 200,000</u>	<u>\$ 2,365,566</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ _____	\$ _____	\$ 2,365,566
Total liabilities			2,365,566
<u>NET POSITION</u>			
Held in trust	<u>182,061</u>	<u>200,000</u>	_____
Total liabilities, deferred inflows of resources and net position	<u>\$ 182,061</u>	<u>\$ 200,000</u>	<u>\$ 2,365,566</u>

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Statement of Changes in Net Position - Fiduciary Funds
For the Year Ended June 30, 2013

	<u>Private</u> <u>Purpose Trust</u> <u>Funds</u>	<u>Other</u> <u>Post-Employment</u> <u>Benefits</u> <u>Trust Fund</u>
Additions		
Interest and dividends	\$ 561	\$ _____
Total additions	561	
Deductions		
Scholarships and awards	_____ 400	_____
Total deductions	_____ 400	_____
Transfers		
Transfers in	_____	_____ 200,000
Change in net position	161	200,000
Net position at beginning of year	_____ 181,900	_____
Net position at end of year	<u>\$ 182,061</u>	<u>\$ 200,000</u>

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Note 1. Organization and Reporting Entity

A. Organization

The Town of Middleborough, Massachusetts (the "Town"), was incorporated in 1669, and has a Town Meeting form of government with administrative authority vested in a five member Board of Selectmen and an appointed Town Manager. The Town's major operations include police and fire protection, parks, library, recreation, public works, education, and general administrative services. In addition, the Town owns and operates a water system, sewer system and a gas and electric department.

B. Reporting Entity

General

The accompanying financial statements present the Town of Middleborough (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Town of Middleborough did not identify any component units requiring inclusion in the accompanying financial statements.

The Gas and Electric Enterprise Fund is a regulated municipal electric and gas utility that issues separately audited financial statements as of, and for, the year ended December 31, 2012. Another auditor, whose report has been furnished to us, audited these financial statements. These financial statements have been included in the Town's reporting entity and the financial position as of December 31, 2012, and the results of operations for the year then ended are included in the Town's entity-wide financial statements. A copy of the audited financial statements for the Middleborough Gas and Electric Department may be obtained at the department's administrative office located at 32 South Main Street, Middleborough, Massachusetts 02346.

Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's joint ventures, their purpose, and the annual assessment paid by the Town. Financial statements may be obtained from each joint venture by contacting them directly. The Town does not have an equity interest in any of the joint ventures.

<u>Joint Venture and address</u>	<u>Purpose</u>	<u>FY 2013 Assessment</u>
Bristol Plymouth Regional Technical School District 940 County street, Taunton, MA 02780	To provide regional education services	\$1,532,129
Massachusetts Interlocal Insurance Association (MIIA) One Winthrop Sq, Boston, MA 02110	To provide employee health benefits	\$11,826,019
Massachusetts Interlocal Insurance Association (MIIA) One Winthrop Sq, Boston, MA 02110	To provide property and casualty insurance	\$621,632
Greater Attleboro/Taunton Regional Transit Authority 10 Oak Street, Taunton, MA 02780	To provide regional transportation services	\$140,836
Massachusetts Bay Transit Authority 45 High St., Boston, MA	To provide regional transportation services	\$,9302

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Related Organizations

The Middleborough Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth are legally responsible for the overall operation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town is discussed below.

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's police and fire protection, parks, library and recreation, public works, schools, and general administrative services are classified as governmental activities. The Town's water, trash and sewer services and the gas and electric plant activities are classified as business-type activities.

Government-wide Statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position is reported in three parts— net investment in capital assets; restricted net position, and unrestricted net position. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs by function are normally covered by general revenue. Certain costs, such as property and liability insurance, employee fringe benefit costs and others are not allocated among the Town's functions and are included in general government expenses in the Statement of Activities.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following governmental fund types are used by the Town:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

Major Fund

- General fund is the general operating fund of the Town. It is used to account for all financial resources not accounted for and reported in another fund.

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

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service and capital projects.
- Debt service funds are used to account for and report resources that are restricted, committed, or assigned to the expenditure for principal and interest and the accumulation of funds for the periodic payment of principal and interest on general long-term debt also for financial resources that are being accumulated for principal and interest maturing in future years.
- Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction major capital facilities and other capital assets (other than those financed by business-type/proprietary funds).
- Permanent funds are used to account for and report financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Town:

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs. Although debt related to the sewer, water, and trash funds are not secured solely with their respective net revenues, the Town has decided to report them as enterprise funds.
- Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Town on a cost-reimbursement basis. Currently, the Town does not utilize internal service funds.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs and not incorporated into the government-wide statements. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

- Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements.
- Agency funds are used to hold funds on behalf of parties other than the Town, including, Other Post Employment Benefit ("OPEB") funds, federal and state agencies and public school student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

B. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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., measurement 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 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.

C. Cash and Cash Equivalents and Investments

For the purpose of the Statement of Net Position, “cash and cash equivalents” include all demand, savings accounts, and certificates of deposits of the Town. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 4.

D. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

E. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies outstanding personal property taxes and motor vehicle and boat excise three or more years old as uncollectible for financial reporting purposes. The Town estimates 3% of outstanding water, sewer and transfer station charges to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectable.

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

➤ Buildings & Improvements	20-40 years
➤ Easements	20 years
➤ Machinery and Equipment	3-10 years
➤ Fire Apparatus	15 years
➤ Computer Related	3-7 years
➤ Textbooks and Related	5-10 years
➤ Vehicles	5 years
➤ Communications Equipment	7 years
➤ Infrastructure	40-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

G. Deferred Outflows and Deferred Inflows

Deferred outflows of resources, as applicable, represent a consumption of assets by the government that is applicable to a future reporting period. These *deferred outflows of resources* have a positive effect on net position. Deferred inflows of resources, as applicable, represent the acquisition of assets by the government that is applicable to a future reporting period. These *deferred inflows of resources* have a negative effect on net position. These amounts are reported in government-wide and fund financial statements based upon the nature of the items.

H. Long-term Obligations

The accounting treatment of long-term obligations depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

I. Compensated Absences

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned, but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

J. Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

- Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.
- Restricted net position—Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. These assets may be restricted by constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

- Unrestricted net position—Represents the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance can be classified in the following components:

- Nonspendable fund balance – consists of amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – consists of amounts upon which constraints have been placed on their use either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – consist of amounts which can only be used for specific purposes pursuant to constraints imposed by formal action of Town Meeting.
- Assigned fund balance – consist of amounts that are constrained by the Town's intent to be used for a specific purpose. Intent is expressed by either the governing body, or the officials directly responsible for departmental appropriations
- Unassigned fund balance – represents the residual classification for the general fund. It represents amounts that have not been assigned to other funds and 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 were designated for one purpose at the time of their creation. Therefore, any expenditure made 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.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

L. Total Columns

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

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

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Note 3. Stewardship, Compliance and Accountability

A. Property Tax Calendar and Limitations

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property located in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide property tax limitation statute known as “Proposition 2 ½” limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year’s allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls (“new growth”). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

B. Fund Equities

Operations of the various Town funds for the fiscal year were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either nonspendable, restricted, committed, or assigned for specific purposes. The residual is reported as unassigned fund balance. As of June 30, 2013, the classification of the Town’s fund balances can be detailed as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:			
Permanent fund principal	\$ -	\$ 412,921	\$ 412,921
Subtotal	-	412,921	412,921
Restricted:			
General government		1,541,298	1,541,298
Public safety		170,530	170,530
Education		2,930,652	2,930,652
Public works		131,061	131,061
Human services		518,009	518,009
Culture & recreation	-	321,640	321,640
Subtotal	-	5,613,190	5,613,190
Committed:			
General government	369,474		369,474
Public safety	36,136		36,136
Education	89,291		89,291
Public works	35,829		35,829
Employee benefits and general insurance	3,600		3,600
Debt service	898,936	-	898,936
Subtotal	1,433,266	-	1,433,266
Assigned:			
General government	11,351		11,351
Public safety	2,114		2,114
Education	621,811		621,811
Public works	1,059	-	1,059
Subtotal	636,335	-	636,335
Unassigned	<u>2,189,781</u>	<u>(2,412,294)</u>	<u>(222,513)</u>
Total	<u>\$ 4,259,382</u>	<u>\$ 3,613,817</u>	<u>\$ 7,838,199</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

The Town's stabilization funds are reported with the General fund since the fund is designed to maintain funds set aside by town meeting votes, and is not funded by a specific revenue source. In accordance with Massachusetts General Law Chapter 40, Section 5B, for the purpose of creating one or more stabilization funds, towns may appropriate in any year an amount not exceeding, in the aggregate, 10% of the amount raised in the preceding fiscal year by taxation of real estate and personal property and the aggregate amount in such funds may not exceed 10% of the equalized valuation. At annual or special town meeting the Town with two-thirds vote may create a stabilization fund, specify or change the purpose of any stabilization fund, and appropriate into or out of any such fund. The Town's stabilization funds and year end balances are as follows:

Stabilization fund	\$1,354,419
Debt service stabilization fund	\$ 898,936

As of June 30, 2013 the Town reported fund deficits from other funds as listed below:

<u>Fund Name</u>	<u>Fund Type</u>	<u>Fund Deficit</u>
Various special revenue funds	Special revenue fund	\$ 43,208
Highway Grants	Special revenue fund	220,318
Purchase fire truck	Capital project fund	887,776
Elementary Complex	Capital project fund	273,461
Repair Town buildings	Capital project fund	255,701
DPW vehicles and equipment	Capital project fund	410,959
Purchase technology equipment	Capital project fund	260,772
Various capital project funds	Capital project fund	60,099
		<u>\$ 2,412,294</u>

Fund deficits identified above that relate to cost reimbursement grants and will be covered by subsequent billings to awarding agencies. Receivables offset by deferred revenue have been recorded in the fund basis financial statements. Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town may have deficit fund balances in the capital projects funds. These deficits will be funded through long-term borrowing.

C. Restricted Net Position

Certain net position reported as special revenue funds in the Town's fund basis Balance Sheet including the receipts reserved for appropriation from proceeds of sale of real estate and insurance reimbursements are classified as unrestricted net position because they are available for appropriation to fund the general operations of the Town.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

Restricted net position on the government-wide statement of net position consist of the following:

Special Revenue Fund Balances:	
School - Ch71 Tuition Funds	\$ 1,056,203
Title V Septic Loan Program	1,252,698
Housing Development Fund	925,945
Athletic Revolving	597,012
MWPAT Trust Repayment Fund	714,768
COA Trust Fund	547,087
Community Preservation Act	459,612
Other Special Revenue Funds	2,156,593
Capital Project Funds	86,367
Permanent Funds:	
Expendable	96,975
Non-expendable	<u>412,921</u>
	<u>\$ 8,306,181</u>

Note 4. Cash and Cash Equivalents and Investments

Massachusetts General Laws, Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), a pooled investment account. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the Town's deposit may not be returned. At June 30, 2013, deposits per the banks totaled \$63,280,314 and had a carrying amount of \$62,466,918, inclusive of Gas and Electric Activities of \$36,193,023; however, the Gas and Electric Activities reported in the accompanying financial statements are as December 31, 2012 and cash is reported as \$45,163,035. Of the deposit amounts, \$60,311,972 was exposed to custodial credit risk at June 30, 2013 because it was uninsured and uncollateralized. The difference between bank deposits and carrying amounts consists primarily of outstanding checks and deposits in transit.

The Town's only investment at year-end consists of \$2,499 on deposit with MMDT. MMDT deposits are not categorized since the units of investment are not evidenced by securities that exist in physical or book entry form. These amounts have been classified as cash equivalents in these financial statements.

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have an investment policy covering custodial credit risk.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have an investment policy regarding interest rate risk.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed. Equity securities, money market funds, repurchase agreements and equity mutual funds are not rated as to credit risk. The Town does not have an investment policy limiting its investment choices.

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

Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Position and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>	<u>Deferred Revenue</u>
Real estate and personal property taxes	\$ 548,306	\$ 201,900	\$ 346,406	\$ 466,519
Tax liens, deferrals and foreclosures	2,568,556		2,568,556	2,568,556
Motor vehicle & other excise	628,694	218,300	410,394	628,694
Septic loan program receivable	1,205,958		1,205,958	1,205,958
Housing loan program receivable	925,945		925,945	925,945
Charges for services	54,067	370	53,697	54,067
Intergovernmental				
School building assistance	5,619,494		5,619,494	5,619,494
Vets receivable	95,356		95,356	
Homeless transportation	116,412		116,412	
Commonwealth highway awards	1,885,799		1,885,799	1,885,799
Veteran reimbursements	455,259		455,259	455,259
Other	141,990	-	141,990	141,990
	<u>\$14,245,836</u>	<u>\$ 420,570</u>	<u>\$ 13,825,266</u>	<u>\$ 13,952,281</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

Receivables for the Town's business-type activities consist of the following:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>
Water rates and charges	\$ 1,343,963	\$ 40,300	\$ 1,303,663
Sewer rates and charges	658,219	19,700	638,519
Sewer - MWPAT Subsidy	36,600		36,600
Trash rates and charges	150,493	4,500	145,993
Gas & Electric user charges, at December 31, 2012	<u>6,151,015</u>	<u>521,295</u>	<u>5,629,720</u>
Totals	<u>\$ 8,853,211</u>	<u>\$ 585,795</u>	<u>\$ 7,754,495</u>

Including in the Fiduciary funds statement of Net Position is \$37,097 of accounts receivable from police details, which is excluded from the footnote.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 10,829,366	\$ 159,300	\$ -	\$ 10,988,666
Art & treasure	2,174			2,174
Construction in progress	<u>205,804</u>	<u>432,733</u>	-	<u>638,537</u>
Sub-total	11,037,344	592,033	-	11,629,377
Capital assets being depreciated:				
Buildings and related improvements	67,687,487	103,757		67,791,244
Easements	50,000			50,000
Equipment & machinery	6,652,223	1,143,453	131,823	7,663,853
Vehicles	3,622,271	869,387	229,105	4,262,553
Books and other printed material	3,131,217			3,131,217
Software	623,284			623,284
Infrastructure	<u>33,915,687</u>	<u>1,172,511</u>	-	<u>35,088,198</u>
Sub-total	115,682,169	3,289,108	360,928	118,610,349
Less accumulated depreciation:				
Buildings and related improvements	27,652,304	1,625,182		29,277,486
Easements	28,750	2,500		31,250
Equipment & machinery	5,604,964	397,282	131,823	5,870,423
Vehicles	2,513,637	477,840	229,105	2,762,372
Books and other printed material	2,395,388	275,258		2,670,646
Software	552,493	8,328		560,821
Infrastructure	<u>19,610,349</u>	<u>796,221</u>	-	<u>20,406,570</u>
Sub-total	<u>58,357,885</u>	<u>3,582,611</u>	360,928	<u>61,579,568</u>
Governmental capital assets, net	<u>\$ 68,361,628</u>	<u>\$ 298,530</u>	<u>\$ -</u>	<u>\$ 68,660,158</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 1,120,300	\$ -	\$ -	\$ 1,120,300
Construction in progress	<u>3,712,867</u>	<u>719,863</u>	<u>-</u>	<u>4,432,730</u>
Sub-total	4,833,167	719,863	-	5,553,030
Capital assets being depreciated:				
Buildings and related improvements	5,743,148			5,743,148
Equipment & machinery	5,016,427	49,567	-	5,065,994
Infrastructure	28,376,155	-		28,376,155
Gas and Electric Utility, December 31, 2012	<u>52,334,289</u>	<u>2,772,853</u>	<u>298,758</u>	<u>54,808,384</u>
Sub-total	91,470,019	2,822,420	298,758	93,993,681
Less accumulated depreciation:				
Buildings and related improvements	5,083,286	36,794		5,120,080
Equipment & machinery	3,280,641	316,083	-	3,596,724
Infrastructure	11,392,721	591,292		11,984,013
Gas and Electric Utility, December 31, 2012	<u>35,894,060</u>	<u>2,597,450</u>	<u>227,930</u>	<u>38,263,580</u>
Sub-total	<u>55,650,708</u>	<u>3,541,619</u>	<u>227,930</u>	<u>58,694,397</u>
Business-type activities capital assets, net	<u>\$ 40,652,478</u>	<u>\$ 664</u>	<u>\$ (70,828)</u>	<u>\$ 40,582,314</u>

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

Governmental Activities		
General Government		\$ 341,392
Public Safety		612,133
Education		1,346,693
Public Works		862,714
Health and Human Services		11,400
Culture and Recreation		<u>408,279</u>
Total depreciation expense - governmental activities		<u>\$ 3,582,611</u>
Business-type Activities		
Gas & Electric, December 31, 2012		\$ 2,597,450
Water		586,602
Sewer		215,705
Trash		<u>141,862</u>
Total depreciation expense - business-type activities		<u>\$ 3,541,619</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

Note 7. Interfund Balances and Activity

There are no amounts due to or from governmental funds. Interfund transfers, for the fiscal year ended June 30, 2013, consisted of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Gas & Electric Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Trash Fund</u>	<u>OPEB Fund</u>
Amounts transferred to Fund FY 2013 operating budget	\$ 300,000	\$ (300,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer from special revenue fund – planning board revolving	15,090	(15,090)					
Transfer from special revenue fund for MWPAT loan	96,654	(96,654)					
Transfer to OPEB fund	(200,000)						200,000
Transfer to capital project funds to permanently pay down bond anticipation notes (BAN's)	(170,000)	170,000					
Return funds to special revenue and capital project funds	<u>434</u>	<u>(191)</u>	<u>-</u>	<u>(243)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals on governmental fund basis	42,178	(241,935)	-	(243)	-	-	200,000
Pay down of BAN's budgeted in general fund	170,000	(170,000)					
Transfer to stabilization fund which is reported as part of general fund on budgetary basis and not on governmental basis	(1,003,509)	1,003,509					
Transfer from debt stabilization fund which is reported as part of general fund on governmental basis and not on budgetary basis	300,000	(300,000)					
Amounts transferred from Enterprise Funds to fund indirect costs appropriated in the General Fund	<u>5,409,510</u>	<u>-</u>	<u>(2,507,714)</u>	<u>(1,847,079)</u>	<u>(671,459)</u>	<u>(383,258)</u>	<u>-</u>
Totals on budgetary basis	<u>\$ 4,918,179</u>	<u>\$ 291,574</u>	<u>\$(2,507,714)</u>	<u>\$(1,847,322)</u>	<u>\$(671,459)</u>	<u>\$(383,258)</u>	<u>\$200,000</u>

Proprietary fund transfers at year-end represent transfers from the Gas & Electric Fund to the General Fund for payments in lieu of taxes. These payments have been reclassified as revenue to the General Fund.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

Note 8. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

<u>Purpose</u>	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Governmental activities:					
Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd 2004, due 8/1/2022	\$ 109,908	\$ -	\$ 9,723	\$ 100,185	\$ 9,972
Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd 1998 & 2000, due 8/1/2018	153,185		21,929	131,256	21,929
Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd 2012, due 7/15/2032	300,000			300,000	14,787
Multi-purpose bonds, 2.00 – 4.25%, dtd 3/1/2004, due 3/1/2024	2,987,000		288,000	2,699,000	288,000
Massachusetts Water Pollution Abatement Trust, subsidized, due 6/1/2025	140,000		10,000	130,000	10,000
Multi-purpose advance refunding bonds, 3.75% - 5.00%, due 12/15/2019	11,505,355		1,514,170	9,991,185	1,508,353
Massachusetts Water Pollution Abatement Trust, subsidized septic bonds, dtd 12/14/06, due 2/1/2038	150,000		10,000	140,000	10,000
Multi-purpose bonds, 5.75% - 4.0%, dtd 9/15/2007, due 9/1/2026	7,310,750		527,350	6,783,400	527,350
Multi-purpose bonds, 2.0% - 4.125 %, dtd 5/1/2009 ,due 5/1/2029	1,885,000		140,000	1,745,000	140,000
Massachusetts Water Pollution Abatement Trust, subsidized, due 7/15/2027	240,000		15,000	225,000	15,000
Massachusetts Water Pollution Abatement Trust, subsidized, due 7/15/2030	285,000		15,000	270,000	15,000
Massachusetts Water Pollution Abatement Trust, subsidized, due 8/1/2030	285,000	-	15,000	270,000	15,000
Massachusetts Water Pollution Abatement Trust, subsidized, due 1/15/2033	-	<u>200,000</u>	-	<u>200,000</u>	<u>10,000</u>
Total governmental bonds payable	25,351,198	200,000	2,566,172	22,985,026	2,585,391
Compensated absences	4,142,000		64,000	4,078,000	
OPEB obligation	<u>22,457,112</u>	<u>5,925,459</u>	<u>2,778,621</u>	<u>25,603,950</u>	-
Total governmental noncurrent liabilities	<u>\$ 51,950,310</u>	<u>\$ 6,125,459</u>	<u>\$ 5,408,793</u>	<u>\$ 52,666,976</u>	<u>\$ 2,585,391</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

<u>Purpose</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Business-type activities:					
Massachusetts Water Pollution Abatement Trust, subsidized bonds, dtd 11/15/2002, due 8/16/2017	\$ 170,848	\$ -	\$ 25,848	\$ 145,000	\$ 25,000
Water bond, 2.00 – 4.25%, dtd. 3/1/2004, due 3/1/2024	1,893,000		177,000	1,716,000	177,000
Water bonds, 4.00 – 5.50%, dtd. 11/15/2005, due 11/15/2025	1,912,000		200,000	1,712,000	200,000
Sewer bonds, 4.00 – 5.50%, dtd. 11/15/2005, due 11/15/2025	2,438,000		175,000	2,263,000	175,000
Multi-purpose advance refunding bonds, 3.75% - 5.00%, due 12/15/2019	429,644		60,830	368,814	61,647
Multi-purpose bonds, 5.75% - 4.0%, dtd 9/15/2007, due 9/1/2026	679,250		52,650	626,600	52,650
Multi-purpose bonds, 2.0% - 4.125%, dtd 5/1/2009, due 5/1/2029	<u>4,675,000</u>	<u>-</u>	<u>275,000</u>	<u>4,400,000</u>	<u>275,000</u>
Total business-type activity bonds payable	12,197,742	-	966,328	11,231,414	966,297
Compensated absences (excludes Gas & Electric Utility)	158,000	17,700		175,700	
OPEB obligation (excludes Gas & Electric Utility)	813,791	411,805	109,733	1,115,863	
Gas & Electric Utility, Non-current liabilities, December 31, 2012	<u>25,408,808</u>	<u>1,009,831</u>	<u>983,649</u>	<u>25,434,990</u>	<u>-</u>
Total business-type noncurrent liabilities	<u>\$ 38,578,341</u>	<u>\$ 1,439,336</u>	<u>\$ 2,059,710</u>	<u>\$ 37,957,967</u>	<u>\$ 966,297</u>

Long-term debt

The Town has applied for and received approval for a school building assistance grant from the Commonwealth of Massachusetts for reimbursement of eligible construction and interest costs on certain school construction projects – refunding bonds. Reimbursement commenced in fiscal 2002 and will be made over 20 years at approximately 79% of eligible costs of the project, subject to approval and annual appropriation by the Commonwealth of Massachusetts. The Massachusetts School Building Authority completed an audit of The Middle School project's allowable costs in fiscal year 2007.

Pursuant to Government Accounting Standards Board (GASB) Statement No. 33 (Accounting and Financial Reporting for Non-exchange Transactions), these financial statements include intergovernmental receivables from the Commonwealth of Massachusetts of \$5,619,494 which are offset by deferred revenue related to these awards on the fund basis financial statements and are fully accrued on government-wide financial statements. No provision for uncollectible amounts has been provided for this receivable.

The outstanding Massachusetts Water Pollution Abatement Trust (MWPAT) bonds above are recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that the debt service payments relating to these issues will be subsidized by the Commonwealth of Massachusetts via contract payments to MWPAT (and MWPAT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide financial statements; however, these payments are not included in the budgetary basis statement because it is not part of the local budget.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

The annual requirements to amortize all general obligation bonds (not including those related to the Gas & Electric Utility) and loans outstanding as of June 30, 2013, including interest, are as follows:

	<u>Governmental</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,585,391	\$ 936,475	\$ 3,521,866	\$ 966,297	\$ 436,474	\$ 1,402,771
2015	2,570,429	822,757	3,393,186	886,281	400,246	1,286,527
2016	2,558,285	708,539	3,266,824	883,448	366,066	1,249,514
2017	2,538,674	593,044	3,131,718	883,082	333,199	1,216,281
2018	2,472,118	482,190	2,954,308	878,559	299,919	1,178,478
2019 – 2023	7,467,001	1,144,063	8,611,064	4,040,747	1,003,570	5,044,317
2024 – 2028	2,577,279	235,696	2,812,975	2,418,000	292,691	2,710,691
2029 – 2033	<u>215,848</u>	<u>-</u>	<u>215,848</u>	<u>275,000</u>	<u>11,344</u>	<u>286,344</u>
Totals	<u>\$ 22,985,026</u>	<u>\$ 4,922,764</u>	<u>\$ 27,907,789</u>	<u>\$ 11,231,414</u>	<u>\$ 3,143,509</u>	<u>\$ 14,374,923</u>

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

Unissued debt authorizations consist of the following at June 30, 2013:

<u>Purpose</u>	<u>Year(s)</u>	<u>Amount</u>
	<u>Authorized</u>	
Wastewater treatment plant	2012	\$ 400,000
MWPAT: repair, replace or upgrade septic systems	2012	200,000
Purchase police department equipment	2012	20,000
Purchase fire engine	2012	450,000
Purchase command vehicle	2012	40,000
Purchase DPW equipment	2012	252,000
Refurbish Town buildings	2012	75,821
Refurbish and improvements for elementary school	2012	318,000
Improvements for high school	2012	30,000
Purchase school equipment (technology)	2012	175,000
MWPAT repair, replace, upgrade septic disposal systems	2013	200,000
To purchase new forestry vehicle	2013	215,000
Purchase DPW equipment and signage	2013	355,000
Land and building improvements	2013	147,183
Elementary complex renovations and security cameras	2013	155,000
High school building improvements	2013	115,000
School department computer network infrastructure	2013	70,000
Upgrade to wastewater treatment facility	2013	2,500,000
Design of police station expansion	2013	<u>600,000</u>
Total authorized and unissued		<u>\$ 6,318,004</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

The Town pays assessments, which include debt service payments to other local governmental units providing services on behalf of the Town (commonly referred to as overlapping debt.) The Town is indirectly liable, through its assessments to these governments, for this debt. However, the debt is not considered against the Town's debt limits or reported on the Town's Statement of Net Position.

Lease obligations

A. Operating leases

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. Currently, the Town has no material operating lease obligations outstanding.

B. Capital leases

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not to exceed five years and subject to annual appropriation. Currently, the Town has no material capital lease obligations outstanding.

Note 9. Temporary Borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the Capital Project Funds.

Changes in the Town's short-term debt for the year ended June 30, 2013 are as follows:

Type/ <u>Dated Date</u>	<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2013</u>
Governmental activities:							
Interim loan, 12/15/2011	Septic remediation	Subsidized	Upon Drawdown	\$ 200,000	\$ -	\$ 200,000	\$ -
Interim loan, 10/1/2012	Septic remediation	Subsidized	Upon Drawdown		220,000		220,000
BAN, 11/8/12	Multi-purpose	0.70%	11/8/2012	1,822,095		1,822,095	
BAN, 8/18/2011	Land purchase	1.15%	8/18/2012	40,000		40,000	
BAN, 8/17/2012	Land purchase	0.45%	11/8/2012		20,000	20,000	
BAN, 11/8/2012	Multi-purpose	0.40%	11/8/2013		1,000,000		1,000,000
BAN, 11/8/2012	Multi-purpose	0.50%	11/8/2013	-	2,013,942	-	2,013,942
Total governmental activities				<u>\$ 2,062,095</u>	<u>\$ 3,253,942</u>	<u>\$ 2,082,095</u>	<u>\$ 3,233,942</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

Business-type activities:

BAN, 8/18/2011	Water mains	1.15%	8/18/2012	\$ 260,000	\$ -	\$ 260,000	\$ -
BAN, 8/17/2012	Water mains	0.45%	11/8/2012		150,000	150,000	
BAN, 11/8/2012	Water mains	0.50%	11/8/2013	-	150,000	-	150,000
BAN, 3/5/2013	Wastewater facility upgrades	0.50%	11/8/2013	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Total business-type activities				<u>\$ 260,000</u>	<u>\$ 700,000</u>	<u>\$ 410,000</u>	<u>\$ 550,000</u>

Since proceeds from bond anticipation notes are not considered permanent funding sources, the Town has deficit fund balances in the Capital Projects Fund. These deficits will be funded through long-term borrowing.

Note 10. Employee Benefits

A. Retirement Benefits

Plan Description

The Town of Middleborough, Massachusetts contributes for eligible employees to the Plymouth County Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Plymouth County Retirement System. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (M.G.L.) and other applicable statutes. Oversight is provided by a five member board. The Association issues an annual report, including financial statements, which is available to the public and may be obtained by contacting the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission (PERAC), One Ashburton Place, Boston, MA 02108. Teachers are covered by the Commonwealth of Massachusetts, Teachers Retirement System (TRS), to which the Town does not contribute.

Funding Policy

Plan members are required to contribute 5-11% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The Town's current year contribution, which was equal to its required contribution is \$4,704,887, reflective of the two percent early pay discount, representing approximately 9.1% of the system wide employer assessments. The contribution requirements of plan members and the Town are established and may be amended by M.G.L. The Town's contributions to the System for the years ending June 30, 2012 and 2011 were \$4,046,559 and \$4,014,712 respectively, and also approximate 8.9% and 8.4% of the system wide employer assessments which were equal to the required contributions for each year.

As noted above, the Town does not contribute to TRS. Contributions to the TRS are made by the Commonwealth of Massachusetts on behalf of the Town. Accounting principles generally accepted in the United States require the Town to record such "on behalf payments" as revenue and expenditures/expenses in the financial statements. Accordingly, \$6,004,003 of pension benefits paid by the Commonwealth of Massachusetts on behalf of the Town is included in the accompanying Statement of Activities as general government operating contributions and expense and in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance as general fund intergovernmental revenue and general government expenditures. These on-behalf

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

payments are not part of the local budget and therefore, are not included in the accompanying budgetary basis statement.

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Position for both governmental and business-type activities.

C. Other Post Employment Benefits

In addition to the pension benefits described above, the Town provides postretirement healthcare benefits to all employees who retire from the Town on or after attaining age 55 with 10 or more years of service. Currently, the Town pays 75-80% of the health, dental and life insurance premiums for approximately 510 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2013, those costs totaled approximately \$2,465,000.

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 provisions of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows 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.

	Governmental Activities	Business-type Activities	Total
Annual Required Contribution	\$ 7,663,357	\$ 1,761,318	\$ 9,424,675
Interest on net OPEB obligation	887,732	56,626	944,358
Adjustment to annual required Contribution	<u>(2,625,630)</u>	<u>(16,203)</u>	<u>(2,641,833)</u>
Annual OPEB cost (expense)	5,925,459	1,801,741	7,727,200
Contributions made	<u>(2,778,621)</u>	<u>(1,339,859)</u>	<u>(4,118,480)</u>
Increase in net OPEB obligation	3,146,838	461,882	3,608,720
Net OPEB Obligation - beginning of year,	<u>22,457,112</u>	<u>1,382,753</u>	<u>23,839,865</u>
Net OPEB Obligation - end of year	<u>\$ 25,603,950</u>	<u>\$ 1,844,635</u>	<u>\$ 27,448,585</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Governmental Activities:			
6/30/2013	\$ 5,925,459	46.89%	\$ 25,603,950
6/30/2012	\$ 7,279,170	42.71%	\$ 22,457,112
6/30/2011	\$ 7,553,833	41.15%	\$ 19,382,196
Business-type Activities:			
6/30/2013	\$ 1,801,741	74.35%	\$ 1,844,635
6/30/2012	\$ 1,590,507	81.94%	\$ 1,382,753
6/30/2011	\$ 1,782,578	143.79%	\$ 1,095,567

Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using the level dollar thirty year open amortization basis.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b)-(a)/c
Governmental Activities:						
7/1/2012	\$ -	\$ 69,785,474	\$ 69,785,474	0.00%	\$ n/a	n/a
7/1/2010	\$ -	\$ 88,867,627	\$ 88,867,627	0.00%	\$ 29,961,589	296.61%
7/1/2008	\$ -	\$ 102,221,617	\$ 102,221,617	0.00%	\$ 28,179,837	362.75%
Business-type activities:						
7/1/2012	\$ 4,248,664	\$ 9,667,206	\$ 5,418,542	43.95%	\$ n/a	n/a
7/1/2010	\$ 2,107,608	\$ 24,141,551	\$ 22,033,943	8.73%	\$ 4,728,303	466.00%
7/1/2008	\$ -	\$ 15,683,812	\$ 15,683,812	0.00%	\$ 4,221,254	371.54%

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 in the required supplementary information following 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 the 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 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.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
Notes to Financial Statements
June 30, 2013

<ul style="list-style-type: none"> ▪ Actuarial Cost Method: ▪ Investment Rate of Return: ▪ Healthcare Trend Rates: 	<p>Projected Unit Credit 4.00% per annum</p> <table border="0"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: left;"><u>Medical</u></th> <th style="text-align: left;"><u>Dental</u></th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>6.0%</td> <td>5.5%</td> </tr> <tr> <td>2014</td> <td>5.0%</td> <td>5.0%</td> </tr> <tr> <td>2015</td> <td>5.0%</td> <td>5.0%</td> </tr> </tbody> </table>	<u>Year</u>	<u>Medical</u>	<u>Dental</u>	2013	6.0%	5.5%	2014	5.0%	5.0%	2015	5.0%	5.0%
<u>Year</u>	<u>Medical</u>	<u>Dental</u>											
2013	6.0%	5.5%											
2014	5.0%	5.0%											
2015	5.0%	5.0%											
<ul style="list-style-type: none"> ▪ General Inflation Assumption: ▪ Annual Compensation Increases: ▪ Actuarial Valuation of Assets: ▪ Amortization of UAAL: ▪ Remaining Amortization Period: 	<p>2.50% per annum 3.00% per annum Market Value Level dollar amortization over 30 years at transition 26 years at July 1, 2012</p>												

Note 11. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. The Town transferred all of its responsibility for closure and post closure care to a private entity, Waste Management of Massachusetts, Inc. (WMMA) under an agreement recorded in fiscal year 2006. Therefore, the Town will not record a liability for these costs.

The Town's landfill is divided into three sections which are referred to as Phase I, Phase II and Phase III. Phase I has been capped and closed, Phase II has been constructed and is accepting waste and Phase III has yet to be constructed.

In accordance with the Landfill Operations Agreement (the agreement) between the Town of Middleborough and Waste Management of Massachusetts, Inc. dated February 15, 2006, the Town granted WMMA access to and exclusive rights to operate the landfill. In accordance with the agreement, the Town assumed responsibility to close Phase I of the landfill and to obtain all necessary approvals to construct and operate Phase II. Furthermore, WMMA shall reimburse the Town for costs to complete the closure of Phase I and construct Phase II in an amount not to exceed \$2,993,212. WMMA will also complete the installation of a final cover system for all future landfill expansion areas, and secure and maintain a Financial Assurance Mechanism throughout the term of the agreement as required by the MADEP for closure and post-closure maintenance of the landfill pursuant to 310 CMR §19.051.

Per the agreement, WMMA shall receive up to a maximum of 120 tons a week and 5,460 tons in any calendar year, of acceptable solid waste delivered for disposal by or on behalf of the Town, Town residents and/or Town WWTP sludge for the term of this agreement at no cost to the Town. WMMA will also provide dedicated containers at the landfill and will operate and maintain an area for exclusive use by Town residents for disposal of residential acceptable solid waste not allowed to be left at the curbside for Town collection. The Town will be responsible for issuing residential landfill permits.

Effective the date of the agreement, WMMA shall make certain financial payments to the Town. Annually, the WMMA will reimburse the Town for costs, not to exceed \$75,000, associated with the retention of the Town Monitor; \$65,872 was reimbursed in fiscal year 2013. In addition, WMMA will pay the Town a royalty fee of \$5.25 per ton for all tons of acceptable waste up to 29,328 tons per year and \$10.00 per ton for any additional tons. The royalty fee shall remain fixed for a period of five calendar years for the date of the agreement. Thereafter, the royalty fee shall be increased by an amount equal to

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

fifty cents per ton during any calendar year in which the average revenue per ton received by the WMMA for the disposal of solid waste equals or exceeds \$93.66. The royalty fee shall be further increased by an additional amount equal to fifty cents per ton for any calendar year after the fifteenth anniversary of the effective date, in which the average revenue per ton for the disposal of acceptable solid waste equals or exceeds on \$105.97. The Town received \$166,005 royalty fees during fiscal year 2013.

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance for all risks, except health insurance. Effective for fiscal year 2013, the Town joined the Massachusetts Interlocal Insurance Agency, Health Benefits Trust, a self-insured plan to provide health insurance for employees. At June 30, 2013, the Trust had net assets of \$101,236,409 (unaudited).

Note 13. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2013, including those claims asserted which are incidental to performing ordinary governmental functions. Such litigation includes actions commenced and claims asserted against the Town for property damage and personal injury and other alleged violations of law. The potential estimated liability of the Town for the above litigation could not be determined. In the opinion of Town management, the ultimate resolution of these legal actions will not result in a material loss to the Town. Accordingly, no provision for loss has been made in the accompanying financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

Note 14. Implementation of GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board ("GASB"), which are applicable to the Town's financial statements.

Current pronouncements

The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which was required to be implemented in fiscal year 2013. This pronouncement's objective was to improve financial reporting by addressing issues related to service concession arrangements (SCA), which are types of public-private or public-public partnerships through the use of infrastructure or another public asset in exchange for significant consideration. This pronouncement had no effect on the Town in the current year.

The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which was required to be implemented in fiscal year 2013. This pronouncement modified requirements for the inclusion of component units in the financial reporting entity. This pronouncement had no effect on the Town in the current year.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which was required to be implemented in fiscal year 2013. This pronouncement continued the codification of all generally accepted accounting principles for state and local governments into a single source.

The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was required to be implemented in fiscal year 2013. This pronouncement standardized the financial reporting relating to the elements of a government's consumption of net assets, and an acquisition of net assets that is applicable to a future reporting period

The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014. This pronouncement was implemented in the current year. The pronouncement reclassified certain assets and liabilities as deferred outflows and deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Future pronouncements

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 2014. The pronouncement resolves conflicting guidance from issued pronouncement No. 54, regarding fund based reporting of risk financing activities. Also it amends No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) purchase of a loan or a group of loans, and (3) service fees. The Town doesn't believe this pronouncement will have a material effect upon the Town's financial statements.

The GASB issued Statement #68, *Accounting and Financial Reporting for Pension*, which is required to be implemented in fiscal year 2015. The pronouncement requires governments providing defined benefit pensions to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual cost of pension benefits. It also enhances accountability and transparency through revised and additional note disclosures and required supplementary information. The pronouncement will have a material effect upon the Town's financial statements.

The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting issues associated with a variety of transactions, such as mergers, acquisitions, disposals and transfer of governmental operations. The Town doesn't anticipate this pronouncement will have an effect upon the Town's financial statements.

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting for financial guarantees extended by a government for the obligations of another government, not-for-profit, or private entity without directly receiving equal or approximately equal value in exchange for the guarantee. The Town doesn't anticipate the pronouncement will have an effect upon the Town's financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Notes to Financial Statements

June 30, 2013

The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB #68*, which is required to be implemented in fiscal year 2014. The pronouncement addresses transition provisions of GASB #68 for accounting amounts associated with contributions, if any, made by a local government or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The pronouncement will have a material effect upon the Town's financial statements.

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SUPPLEMENTARY INFORMATION

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TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance to Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 32,691,268	\$ 32,796,536	\$ 32,655,025	\$ (141,511)
Excise taxes	3,140,822	3,140,822	2,770,098	(370,724)
Licenses and permits	700,947	700,947	537,710	(163,237)
Penalties and interest	364,813	364,813	381,311	16,498
Investment interest	82,784	82,784	118,861	36,077
Charges for services	50,262	50,262	50,892	630
Fines and fees	206,530	206,530	261,601	55,071
Departmental and other	673,842	673,842	768,563	94,721
Intergovernmental	21,438,067	21,438,067	21,787,782	349,715
Total revenues	<u>59,349,335</u>	<u>59,454,603</u>	<u>59,331,843</u>	<u>(122,760)</u>
Expenditures				
General government	2,841,312	3,376,077	3,181,483	194,594
Public safety	6,985,610	7,047,592	6,901,383	146,209
Education	31,225,794	29,043,728	28,873,343	170,385
Public works	1,307,679	1,420,514	1,420,343	171
Human services	1,361,702	1,413,782	1,411,968	1,814
Culture and recreation	822,422	824,422	823,539	883
Employee benefits and general insurance	16,012,394	15,329,498	15,013,246	316,252
Intergovernmental	2,233,634	2,233,634	2,227,329	6,305
Debt service	5,105,251	5,275,251	5,241,740	33,511
Total expenditures	<u>67,895,798</u>	<u>65,964,498</u>	<u>65,094,374</u>	<u>870,124</u>
Revenues over (under) expenditures	(8,546,463)	(6,509,895)	(5,762,531)	747,364
Other financing sources (uses)				
Transfers in from other funds	6,174,589	6,174,589	6,121,688	(52,901)
Transfers out to other funds		<u>(1,203,509)</u>	<u>(1,203,509)</u>	
Total other financing sources	<u>6,174,589</u>	<u>4,971,080</u>	<u>4,918,179</u>	<u>(52,901)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(2,371,874)	(1,538,815)	(844,352)	<u>\$ 694,463</u>
Fund balance, beginning of year			<u>4,819,655</u>	
Fund balance, end of year			<u>\$ 3,975,303</u>	
Other budget items				
Free cash appropriations		1,741,758		
Overlay surplus		100,000		
Carryover encumbrances	2,380,856	(293,961)		
Funding of prior year deficits	<u>(8,982)</u>	<u>(8,982)</u>		
Total other budget items	<u>2,371,874</u>	<u>1,538,815</u>		
Net budget	<u>\$</u>	<u>\$</u>		

See accompanying notes to required supplementary information.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
 Note to Budgetary Comparison Schedule – General Fund
 June 30, 2013

Note 1. Budgetary Basis of Accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year’s deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. General fund and Community Preservation fund functions are budgeted; the town does not have legally adopted annual budgets for its other special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column of the Statements of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis, are presented on a “budget basis” to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2013, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses), Net</u>
As reported on a budgetary basis	\$ 59,331,843	\$ 65,094,374	\$ 4,918,179
Adjustment of property tax revenues to modified accrual basis	134,503		
State funded teacher's pension	6,004,003	6,004,003	
Net change in summer payroll accrual		37,392	
Transfer to capital project fund to permanently pay down bond anticipation notes		(170,000)	(170,000)
Indirect costs of other funds recorded as operating transfer on budgetary basis, net of interfund changes	575,433	(4,834,077)	(5,409,510)
Stabilization fund activity	<u>6,028</u>	<u>-</u>	<u>703,509</u>
As reported on a GAAP basis	<u>\$ 66,051,810</u>	<u>\$ 66,131,692</u>	<u>\$ 42,178</u>

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Required Supplementary Information

June 30, 2013

Other Post Employment Benefits

Funding Status and Schedule of Funding Progress

The unfunded actuarial liability was determined using the level dollar amortization

Actuarial Valuation	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b)-(a)</u>	<u>(a)/(b)</u>	<u>(c)</u>	<u>[(b)-(a)]/c</u>
Governmental Activities:						
7/1/2012	\$ -	\$ 69,785,474	\$ 69,785,474	0.00%	n/a	n/a
7/1/2010	\$ -	\$ 88,867,627	\$ 88,867,627	0.00%	\$ 29,961,589	296.61%
7/1/2008	\$ -	\$ 102,221,617	\$ 102,221,617	0.00%	\$ 28,179,837	362.75%
Business-type activities:						
7/1/2012	\$ 4,248,664	\$ 9,667,206	\$ 5,418,542	43.95%	n/a	n/a
7/1/2010	\$ 2,107,608	\$ 24,141,551	\$ 22,033,943	8.73%	\$ 4,728,303	466.00%
7/1/2008	\$ -	\$ 15,683,812	\$ 15,683,812	0.00%	\$ 4,221,254	371.54%

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 in the required supplementary information following 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 the 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 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.

Actuarial Cost Method: Projected Unit Credit

Investment Rate of Return: 4.00% per annum

Healthcare Trend Rates:

<u>Year</u>	<u>Medical</u>	<u>Dental</u>
FY2013	6.0%	5.5%
FY2014	5.0%	5.0%
FY2015	5.0%	5.0%

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

Required Supplementary Information

June 30, 2013

General Inflation Assumption:	2.5% per annum
Annual Compensation Increases:	3.0% per annum
Actuarial Value of Assets:	Market Value
Amortization of UAAL:	Level dollar amortization over 30 years at the latest valuation
Remaining Amortization Period:	26 years at July 1, 2012

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TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2013

DRAFT

To the Honorable Board of Selectmen
Town of Middleborough, Massachusetts

In planning and performing our audit of the financial statements of the Town of Middleborough, Massachusetts (the Town) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

Our consideration of internal control was for limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herein are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to June xx, 2014.

A management letter is critical by nature because its purpose is to identify areas where improvements can be made. We have not commented on positive attributes of the Town's financial management systems. It is also important to understand that is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The Town should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like to acknowledge the courtesy and assistance extended to us by Town personnel during our audit.

This communication is intended solely for the information and use of management, the Board of Selectmen, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Norwell, Massachusetts
June xx, 2014

STATUS OF PRIOR YEAR COMMENTS AND SUGGESTIONS

As part of our audit of the Town's financial statements for the year ended June 30, 2012, we had several comments and suggestions in our Management Letter dated February 4, 2012. The status of these comments is noted below.

Maintain Capital Asset Records

During prior year audits, it was recommended the Town establish formal-automated records to track and report on capital asset balances and activity. The procedures should include methodology for identifying construction in progress, communicating and recording fixed asset disposals, identifying cost of disposed assets, calculating annual depreciation, verification of departmental equipment and infrastructure, and reporting on the change in fixed assets and accumulated depreciation on a functional and departmental basis each year.

In recent years, the Town has implemented procedures to perpetually monitor changes in capital assets and to thoroughly review all reports completed by outside consultants for accuracy. In the current year, we noted a couple discrepancies. These discrepancies include a variance between the June 30, 2012 audited balance and the beginning balance in the depreciation schedule completed by the outside consultant, and also a traded in asset that was not disposed during the year. We recognize the improvements the Town has made in this area and recommend the Town continue to make additional system improvements as priority permits.

Improve Compensated Absences Accounting

In prior years, we recommended the Town centralize the accounting for employee compensated absences and provide procedures to report and monitor on the Town's liability in this area. We understand the Town has made improvements to address this issue, but the changes made in tracking compensated absences through the date of this report are not complete due to limitation of the system to adjust for full time and part time employees based on employment contracts. We recommend reviewing the compensated absences regularly and comparing the balances to employment contracts for each department annually.

Record Departmental Receivable Activity

In prior years, we recommended the Town Accountant be provided the necessary information to record departmental receivables at year end to adequately record all financial transactions of the Town through the Town's general ledger as required by MGL Ch. 41 S. 57. Although the Town Accountant did receive the necessary information to record some departmental receivables during fiscal 2013, we continue to recommend the Town Account be provided the necessary information to record all departmental receivables. We have proposed adjusting journal entries to record the following receivables: Community Preservation Act matching reimbursement, veteran's reimbursement, grant reimbursements and housing loan program receivables.

Evaluate Sufficiency of Departmental Turnovers

We continue to recommend the Town require all departmental turnovers to provide adequate description of the receipts remitted; this detail should include source, date of receipt, types of monies collected, and any other information that might be helpful in providing an effective audit trail. We also recommend every turnover be signed by the individual or department head and also by Treasurer's office personnel receiving the turnover.

Review Processes/Procedures Surrounding Financial Software

Last year the wrong software file was uploaded by the IT department to commit and prepare fiscal year tax bills and could not be reversed and we recommended the Town review its systems and processes surrounding utilization of financial software, specifically, personnel access and rights. We were not aware of any issues during the fiscal year 2013.

Proration of Health Insurance Premiums Between Employers

Last year we recommended Town management implement procedures to ensure that it can timely and properly assess other governmental units for prorated retiree health insurance costs, as well as verify costs prorated to it from other governments. The Town Treasurer has implemented these procedures.

Implement Proper Approval of Vendor Warrants

We continue to recommend the Town implement procedures to properly approve vendor warrants. During our review and inquiry of vendor warrants process we noted that vendor warrants a normally authorized with the signature of one Selectman. Massachusetts General Laws provides warrants must be approved by a majority of the Selectmen.

CURRENT YEAR COMMENTS AND SUGGESTIONS

As part of our current year audit, we noted areas where a change in procedure may be desirable or new information that we wish to formally communicate to you. Our comments and suggestions are as follows:

Surety Bonds

In accordance with MGL Ch 41, S 35 and regulations prescribed by the Commissioner of Revenue we understand the Treasurer/Tax Collector's should have a performance bond for no less than \$450,000; however, the Treasurer/Tax Collector is bonded up to \$350,000. We recommend increasing the bond to the appropriate amount.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS
INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
JUNE 30, 2013

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

To the Honorable Board of Selectmen
Town of Middleborough, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the financial statements of Town of Middleborough, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the town of Middleborough, Massachusetts' basic financial statements and have issued our report thereon dated June xx, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

We noted certain matters that we reported to the management of Town of Middleborough, Massachusetts in a separate letter dated June XX, 2014.

This report is intended solely for the information of Town management, Board of Selectmen and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Norwell, MA
June XX, 2014

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