

TOWN OF HAMILTON, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Hamilton, 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 Hamilton, Massachusetts, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hamilton, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2013, on our consideration of the Town of Hamilton, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and general fund budgetary comparison and certain pension and other post employment benefits information (located on pages 55 through 61) 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.

Sullivan, Roy & Company, LLC

April 4, 2013

Management's Discussion and Analysis

As management of the Town of Hamilton, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$17,931,342 (net assets). The Town's governmental activities and business-type activities had unrestricted net assets totaling \$2,235,317 and \$437,335, respectively.
- The Town's total net assets increased by \$2,402,063 in the current fiscal year.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$3,006,528, or 12.3 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$770,000 during fiscal year 2012.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

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

The **statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, etc.).

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 fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, landfill closure, health and human services, culture and recreation, and debt service (interest). Business-type activities include the water and waste removal operations.

The government-wide financial statements can be found on pages 15-17 of this report.

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 can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 72 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and community preservation (special revenue) fund, which are considered to be major funds. Data from the other 70 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-21 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and waste removal operations. That water enterprise fund is considered to be a major fund, while the waste removal enterprise fund is considered nonmajor.

The basic proprietary fund financial statements can be found on pages 22-24 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 statements because the resources of those funds are not available to support the Town's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Private-purpose trust funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the caption "private purpose trust funds".

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the basic 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 can be found on pages 27-54 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other post employment benefits information, which can be located on pages 55-61 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$17,931,342 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets.....	\$ 8,083,691	\$ 7,046,469	\$ 654,337	\$ 630,496	\$ 8,738,028	\$ 7,676,965
Noncurrent assets (excluding capital assets).....	315,833	341,729	26,752	-	342,585	341,729
Capital assets (net).....	13,967,814	14,361,169	5,609,202	5,657,776	19,577,016	20,018,945
Total assets.....	22,367,338	21,749,367	6,290,291	6,288,272	28,657,629	28,037,639
Liabilities						
Current liabilities (excluding debt).....	725,916	611,131	157,992	81,779	883,908	692,910
Noncurrent liabilities (excluding debt).....	2,239,459	3,539,817	157,920	60,633	2,397,379	3,600,450
Current debt.....	520,000	527,000	240,000	243,000	760,000	770,000
Noncurrent debt.....	5,235,000	5,755,000	1,450,000	1,690,000	6,685,000	7,445,000
Total liabilities.....	8,720,375	10,432,948	2,005,912	2,075,412	10,726,287	12,508,360
Net Assets						
Invested in capital assets (net of related debt).....	8,233,133	8,249,206	3,847,044	3,742,552	12,080,177	11,991,758
Restricted.....	3,178,513	3,012,164	-	-	3,178,513	3,012,164
Unrestricted.....	2,235,317	55,049	437,335	470,308	2,672,652	525,357
Total net assets.....	\$ 13,646,963	\$ 11,316,419	\$ 4,284,379	\$ 4,212,860	\$ 17,931,342	\$ 15,529,279

The largest portion of the Town's net assets (67.4%) reflects its investment in capital assets (e.g., land, improvements, buildings, machinery and equipment, vehicles, library books, software, and infrastructure); less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the 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 net assets (17.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (14.9% or \$2,672,652) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$2,235,317 may be used to support governmental activities and \$437,335 may be used to support business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2012, the Town's total net assets increased by \$2,402,063, compared to an increase of \$1,239,766 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 805,802	\$ 752,943	\$ 1,051,418	\$ 1,030,963	\$ 1,857,220	\$ 1,783,906
Operating grants and contributions.....	686,177	816,757	25	58,913	686,202	875,670
Capital grants and contributions.....	152,212	163,599	-	-	152,212	163,599
<i>General Revenues:</i>						
Real estate and personal property taxes.....	22,143,677	22,953,965	-	-	22,143,677	22,953,965
Motor vehicle and other excise taxes.....	937,651	896,783	-	-	937,651	896,783
Meals tax.....	65,829	-	-	-	65,829	-
Penalties and interest on taxes.....	136,941	87,333	-	-	136,941	87,333
Payments in lieu of taxes.....	83,353	43,970	-	-	83,353	43,970
Community preservation surcharges.....	345,027	350,474	-	-	345,027	350,474
Grants and contributions not restricted to specific programs.....	700,859	736,069	-	-	700,859	736,069
Unrestricted investment income.....	15,041	17,095	-	-	15,041	17,095
Gain on sale of capital assets.....	-	133,764	-	-	-	133,764
Total revenues.....	26,072,569	26,952,752	1,051,443	1,089,876	27,124,012	28,042,628
Expenses						
General government.....	1,894,019	2,032,745	-	-	1,894,019	2,032,745
Public safety.....	3,618,235	3,511,031	-	-	3,618,235	3,511,031
Education.....	16,075,287	16,435,528	-	-	16,075,287	16,435,528
Public works.....	1,464,704	1,520,537	-	-	1,464,704	1,520,537
Landfill closure.....	(1,651,300)	-	-	-	(1,651,300)	-
Health and human services.....	440,157	407,032	-	-	440,157	407,032
Culture and recreation.....	1,354,821	1,453,863	-	-	1,354,821	1,453,863
Debt service - interest.....	218,278	224,762	-	-	218,278	224,762
Water.....	-	-	842,316	858,009	842,316	858,009
Waste removal.....	-	-	465,432	359,355	465,432	359,355
Total expenses.....	23,414,201	25,585,498	1,307,748	1,217,364	24,721,949	26,802,862
Change in net assets before transfers.....	2,658,368	1,367,254	(256,305)	(127,488)	2,402,063	1,239,766
Transfers, net.....	(327,824)	(173,883)	327,824	173,883	-	-
Change in net assets.....	2,330,544	1,193,371	71,519	46,395	2,402,063	1,239,766
Net assets - beginning of year.....	11,316,419	10,123,048	4,212,860	4,166,465	15,529,279	14,289,513
Net assets - end of year.....	\$ <u>13,646,963</u>	\$ <u>11,316,419</u>	\$ <u>4,284,379</u>	\$ <u>4,212,860</u>	\$ <u>17,931,342</u>	\$ <u>15,529,279</u>

Governmental activities increased the Town's net assets by \$2,330,544. In the prior year, governmental activities increased the Town's net assets by \$1,193,371. The key element of this change was the decrease of approximately \$1,651,000 in the Town's estimated liability for landfill closure.

Business-type activities increased the Town's net assets by \$71,519. In the prior year, business-type activities increased the Town's net assets by \$46,395.

Fund Financial Statement Analysis

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

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$6,888,519, an increase of \$1,092,175 in comparison with the prior year. Approximately \$2,905,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$288,622)
- Restricted (\$3,169,697)
- Committed (\$465,728)
- Assigned (\$59,412)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$3,006,528, while total fund balance was \$3,581,118. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 12.3% of total general fund expenditures and transfers out, while total fund balance represents 14.7% of that same amount.

The balance of the Town's general fund increased by \$941,876 during fiscal year 2012. Although the Town recognized a budgetary surplus of approximately \$1,438,000 (excluding encumbrances and continuing appropriations), \$493,210 of reserves was utilized for spending during fiscal year 2012.

Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the community preservation fund (special revenue) increased by \$72,885 during the current fiscal year. The fund recognized \$345,157 in surcharges, \$94,689 in intergovernmental revenues, \$23,580 in contributions and \$14,643 in investment income. Expenditures of \$280,184 were incurred during the fiscal year. Transfers out of \$125,000 to the affordable housing special revenue fund were made during the fiscal year.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and waste removal enterprise funds at the end of the year amounted to \$512,299 and (\$74,964), respectively. The water fund had an increase in net assets for the year of \$99,419 and the waste removal fund had a decrease of \$27,900. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget totaled \$25,183,938. During the year, supplemental appropriations totaling \$420 were authorized. The following table summarizes the increase:

Purpose of Increase/Decrease	Amount	Funding Source
Transfers to waste removal enterprise.....	\$ 60,416	Unassigned fund balance
Cemetery expenditures.....	20,000	Cemetery perpetual care permanent fund
Playground equipment.....	5,000	Unassigned fund balance
Purchase of decorations.....	2,500	Unassigned fund balance
Cemetery expenditures.....	1,204	Sale of lots and graves special revenue fund
Waste collection and disposal expenditures.....	<u>(88,700)</u>	Unassigned fund balance
 Total increase.....	 \$ <u>420</u>	

During the year, general fund revenues and net other financing sources/(uses) exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive budget to actual variance of approximately \$1,305,000. Encumbrances and continuing appropriations total \$132,640 at year-end.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$19,577,016 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, machinery and equipment, vehicles, library books, software, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled \$441,929 or 2.2% (a 2.0% decrease for governmental activities and a 0.2% decrease for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Trash barrels purchase (\$152,039)
- Infrastructure projects (\$134,506)
- Town buildings window restoration (\$67,276)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Land.....	\$ 1,428,053	\$ 1,428,053	\$ 283,912	\$ 283,912	\$ 1,711,965	\$ 1,711,965
Improvements.....	743,587	744,237	-	-	743,587	744,237
Buildings.....	9,081,064	9,388,167	2,652,634	2,732,344	11,733,698	12,120,511
Machinery and equipment.....	454,300	485,795	141,560	5,775	595,860	491,570
Vehicles.....	161,632	234,836	1,146	7,317	162,778	242,153
Library books.....	13,281	39,848	-	-	13,281	39,848
Infrastructure.....	<u>2,085,897</u>	<u>2,040,233</u>	<u>2,529,950</u>	<u>2,628,428</u>	<u>4,615,847</u>	<u>4,668,661</u>
 Total capital assets.....	 \$ <u>13,967,814</u>	 \$ <u>14,361,169</u>	 \$ <u>5,609,202</u>	 \$ <u>5,657,776</u>	 \$ <u>19,577,016</u>	 \$ <u>20,018,945</u>

Additional information on the Town’s capital assets can be found in Note 5 on pages 41-42 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$7,445,000, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds.....	\$ 5,755,000	\$ 6,132,000	\$ 1,690,000	\$ 1,933,000	\$ 7,445,000	\$ 8,065,000
State House Serial Loan Notes.....	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total bonds and notes.....	<u>\$ 5,755,000</u>	<u>\$ 6,282,000</u>	<u>\$ 1,690,000</u>	<u>\$ 1,933,000</u>	<u>\$ 7,445,000</u>	<u>\$ 8,215,000</u>

The Town’s total bonded debt decreased by \$770,000 during the current fiscal year.

Moody’s Investors Service, Inc. assigned an “Aa2” rating on bonds issued during fiscal year 2011.

Additional information on the Town’s long-term debt can be found in Note 9 on pages 45-46 of this report.

Economic Factors, Next Year’s Budget and Rates

The current economic environment has required the daily management of the revenue to expense relationship for the Town. Every year a balanced budget is developed based on the availability of levy which includes the 2 ½% increase and new growth, forecasted state aid and local receipts projections. The Town has reached a true baseline for budgeted services that fits within a modest growth of taxable levy and local receipts. Fiscal year 2012 revenues exceed the projection by 3% with a continued turn around in Motor Vehicle Excise Tax. Combined with a reduction in outstanding receivables by 17% and an expense surplus of 1.7% the Town was able to establish and meet a 5% reserve objective for the General Fund.

The challenge is to develop a fiscal year 2013 budget that continues a sustainable balance between rising expenses, a stagnant economy and the ability to fund based on a 95% residential tax base. As the department heads, Finance and Advisory Committee and the Board of Selectman continue to explore cost containment efforts, in full understanding that expenditure increases, for such items as retirement, insurances, and selective capital lease/purchases are inevitable. The Finance and Advisory Committee is recommending to the Board of Selectmen a modest cost-of-living increase (COLA) for Town employees and the Capital Improvement Project of \$10 million for the replacement of the Water Distribution system over a ten year period.

The Town of Hamilton continues to move forward with the development of the Landfill into a revenue producing anaerobic digester and solar field site. The completion of the fatal flaw study recommended the implementation of a scalable system with a growth capacity of up to 200 tons of organic material daily. The first phase is the implementation of the first curbside organic waste collection and disposal bylaws and operation in the State. A three tiered trash and recyclable approach results in a projected cost reduction of 20% by 2015. The anaerobic digester projected new net revenue for 2015 of 10%. The scalability of the operation will provide a growth factor of 200% for local receipts as the environmental regulations are implemented for removing organic trash from the waste stream state-wide.

The Town has created the Hamilton Development Corporation to lead targeted development for the downtown area and the historic large estates.

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 its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 577 Bay Road, Hamilton, Massachusetts 01936.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents.....	\$ 3,459,192	\$ 389,784	\$ 3,848,976
Restricted cash and cash equivalents.....	1,434,650	-	1,434,650
Investments.....	600,408	-	600,408
Restricted investments.....	1,847,666	-	1,847,666
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	172,427	-	172,427
Tax and utility liens.....	352,677	1,128	353,805
Motor vehicle and other excise taxes.....	51,494	-	51,494
Community preservation surcharges.....	2,347	-	2,347
Water charges.....	-	241,980	241,980
Departmental and other.....	10,875	-	10,875
Intergovernmental.....	116,924	53,504	170,428
Loans.....	2,972	-	2,972
Internal balances.....	32,059	(32,059)	-
Total current assets.....	8,083,691	654,337	8,738,028
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	144,557	-	144,557
Intergovernmental.....	-	26,752	26,752
Loans.....	8,262	-	8,262
Tax foreclosures.....	163,014	-	163,014
Capital assets not being depreciated.....	1,428,053	283,912	1,711,965
Capital assets, net of accumulated depreciation.....	12,539,761	5,325,290	17,865,051
Total noncurrent assets.....	14,283,647	5,635,954	19,919,601
Total assets.....	22,367,338	6,290,291	28,657,629
LIABILITIES			
Current liabilities:			
Warrants payable.....	295,635	71,194	366,829
Accrued payroll.....	178,758	9,540	188,298
Tax refunds payable.....	177,013	-	177,013
Other liabilities.....	182	-	182
Accrued interest.....	54,333	-	54,333
Capital lease obligations.....	-	74,827	74,827
Compensated absences.....	19,995	2,431	22,426
Long-term bonds and notes payable.....	520,000	240,000	760,000
Total current liabilities.....	1,245,916	397,992	1,643,908
Noncurrent liabilities:			
Capital lease obligations.....	-	77,588	77,588
Landfill closure and post-closure.....	913,000	-	913,000
Compensated absences.....	179,952	21,876	201,828
Net OPEB obligation.....	1,146,507	58,456	1,204,963
Long-term bonds and notes payable.....	5,235,000	1,450,000	6,685,000
Total noncurrent liabilities.....	7,474,459	1,607,920	9,082,379
Total liabilities.....	8,720,375	2,005,912	10,726,287
NET ASSETS			
Invested in capital assets, net of related debt.....	8,233,133	3,847,044	12,080,177
Restricted for:			
Other postemployment benefits.....	49,450	-	49,450
Community preservation.....	1,918,843	-	1,918,843
Affordable housing.....	125,160	-	125,160
Loans.....	11,234	-	11,234
Permanent funds:			
Expendable.....	218,484	-	218,484
Nonexpendable.....	277,388	-	277,388
Other specific purposes.....	577,954	-	577,954
Unrestricted.....	2,235,317	437,335	2,672,652
Total net assets.....	\$ 13,646,963	\$ 4,284,379	\$ 17,931,342

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 1,894,019	\$ 240,288	\$ 144,945	\$ -	\$ (1,508,786)
Public safety.....	3,618,235	271,376	269,563	-	(3,077,296)
Education.....	16,075,287	-	-	-	(16,075,287)
Public works.....	1,464,704	29,568	25,492	152,212	(1,257,432)
Landfill closure.....	(1,651,300)	-	-	-	1,651,300
Health and human services.....	440,157	59,924	54,323	-	(325,910)
Culture and recreation.....	1,354,821	204,646	191,854	-	(958,321)
Debt service - interest.....	218,278	-	-	-	(218,278)
Total governmental activities.....	23,414,201	805,802	686,177	152,212	(21,770,010)
Business-type activities:					
Water.....	842,316	999,899	25	-	157,608
Waste removal.....	465,432	51,519	-	-	(413,913)
Total business-type activities.....	1,307,748	1,051,418	25	-	(256,305)
Total primary government.....	\$ 24,721,949	\$ 1,857,220	\$ 686,202	\$ 152,212	\$ (22,026,315)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (21,770,010)	\$ (256,305)	\$ (22,026,315)
<i>General revenues:</i>			
Real estate and personal property taxes.....	22,143,677	-	22,143,677
Motor vehicle and other excise taxes.....	937,651	-	937,651
Meals tax.....	65,829	-	65,829
Penalties and interest on taxes.....	136,941	-	136,941
Payments in lieu of taxes.....	83,353	-	83,353
Community preservation surcharges.....	345,027	-	345,027
Grants and contributions not restricted to specific programs.....	700,859	-	700,859
Unrestricted investment income.....	15,041	-	15,041
<i>Transfers, net</i>	(327,824)	327,824	-
Total general revenues and transfers.....	24,100,554	327,824	24,428,378
Change in net assets.....	2,330,544	71,519	2,402,063
Net assets - beginning of year.....	11,316,419	4,212,860	15,529,279
Net assets - end of year.....	\$ 13,646,963	\$ 4,284,379	\$ 17,931,342

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 3,459,192	\$ -	\$ -	\$ 3,459,192
Investments.....	600,408	-	-	600,408
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	172,427	-	-	172,427
Real estate tax deferrals.....	144,557	-	-	144,557
Tax liens.....	352,677	-	-	352,677
Motor vehicle and other excise taxes.....	51,494	-	-	51,494
Community preservation surcharges.....	-	2,347	-	2,347
Departmental and other.....	-	-	10,875	10,875
Intergovernmental.....	-	-	116,924	116,924
Loans.....	-	-	11,234	11,234
Due from other funds.....	32,059	-	-	32,059
Tax foreclosures.....	163,014	-	-	163,014
Restricted assets:				
Cash and cash equivalents.....	6,519	451,829	976,302	1,434,650
Investments.....	42,931	1,464,842	339,893	1,847,666
TOTAL ASSETS.....	\$ 5,025,278	\$ 1,919,018	\$ 1,455,228	\$ 8,399,524
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 258,485	\$ -	\$ 37,150	\$ 295,635
Accrued payroll.....	162,285	175	16,298	178,758
Tax refunds payable.....	177,013	-	-	177,013
Other liabilities.....	182	-	-	182
Deferred revenue.....	846,195	2,347	10,875	859,417
TOTAL LIABILITIES.....	1,444,160	2,522	64,323	1,511,005
FUND BALANCES:				
Nonspendable.....	-	-	288,622	288,622
Restricted.....	49,450	1,916,496	1,203,751	3,169,697
Committed.....	465,728	-	-	465,728
Assigned.....	59,412	-	-	59,412
Unassigned.....	3,006,528	-	(101,468)	2,905,060
TOTAL FUND BALANCES.....	3,581,118	1,916,496	1,390,905	6,888,519
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 5,025,278	\$ 1,919,018	\$ 1,455,228	\$ 8,399,524

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes.....	\$ 22,075,141	\$ -	\$ -	\$ 22,075,141
Motor vehicle and other excise taxes.....	933,230	-	-	933,230
Meals tax.....	65,829	-	-	65,829
Tax liens.....	301,728	-	-	301,728
Payments in lieu of taxes.....	83,353	-	-	83,353
Community preservation surcharges.....	-	345,157	-	345,157
Charges for services.....	-	-	341,759	341,759
Intergovernmental.....	948,587	94,689	433,360	1,476,636
Penalties and interest on taxes.....	136,941	-	-	136,941
Licenses and permits.....	151,795	-	-	151,795
Fines and forfeitures.....	7,845	-	-	7,845
Departmental and other.....	305,035	-	6,975	312,010
Contributions.....	-	23,580	10,275	33,855
Investment income.....	14,777	14,643	9,903	39,323
TOTAL REVENUES.....	25,024,261	478,069	802,272	26,304,602
EXPENDITURES				
Current:				
General government.....	1,435,962	14,896	123,123	1,573,981
Public safety.....	2,195,143	-	305,571	2,500,714
Education.....	16,025,125	-	-	16,025,125
Public works.....	902,918	-	167,012	1,069,930
Health and human services.....	148,139	9,112	23,977	181,228
Culture and recreation.....	749,592	199,338	188,431	1,137,361
Pension benefits.....	550,077	-	-	550,077
Employee benefits.....	704,753	-	-	704,753
Property and liability insurance.....	158,488	-	-	158,488
State and county charges.....	230,068	-	-	230,068
Debt service:				
Principal.....	481,000	46,000	-	527,000
Interest.....	215,040	10,838	-	225,878
TOTAL EXPENDITURES.....	23,796,305	280,184	808,114	24,884,603
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	1,227,956	197,885	(5,842)	1,419,999
OTHER FINANCING SOURCES (USES)				
Transfers in.....	325,784	-	313,736	639,520
Transfers out.....	(611,864)	(125,000)	(230,480)	(967,344)
TOTAL OTHER FINANCING SOURCES (USES).....	(286,080)	(125,000)	83,256	(327,824)
NET CHANGE IN FUND BALANCES.....	941,876	72,885	77,414	1,092,175
FUND BALANCES AT BEGINNING OF YEAR.....	2,639,242	1,843,611	1,313,491	5,796,344
FUND BALANCES AT END OF YEAR.....	\$ 3,581,118	\$ 1,916,496	\$ 1,390,905	\$ 6,888,519

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances (page 18).....	\$	6,888,519
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		13,967,814
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		859,417
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(54,333)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(5,755,000)
Landfill closure and post-closure.....		(913,000)
Compensated absences.....		(199,947)
Net OPEB obligation.....		<u>(1,146,507)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>13,646,963</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page 19).....	\$	1,092,175
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		395,175
Depreciation.....		(630,881)
<p>In the statement of activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		(157,649)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(232,034)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond maturities.....		527,000
Capital lease maturities.....		26,580
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		7,599
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Landfill closure.....		1,651,300
Compensated absences.....		22,209
Net OPEB obligation.....		(370,930)
		(370,930)
Changes in net assets of governmental activities (page 17).....	\$	2,330,544

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Waste Removal (Nonmajor)	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 389,784	\$ -	\$ 389,784
Receivables, net of allowance for uncollectible amounts:			
Water charges.....	241,980	-	241,980
Water liens.....	1,128	-	1,128
Intergovernmental.....	-	53,504	53,504
Total current assets.....	<u>632,892</u>	<u>53,504</u>	<u>686,396</u>
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	-	26,752	26,752
Capital assets not being depreciated.....	283,912	-	283,912
Capital assets, net of accumulated depreciation.....	<u>5,188,455</u>	<u>136,835</u>	<u>5,325,290</u>
Total noncurrent assets.....	<u>5,472,367</u>	<u>163,587</u>	<u>5,635,954</u>
Total assets.....	<u>6,105,259</u>	<u>217,091</u>	<u>6,322,350</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	28,290	42,904	71,194
Accrued payroll.....	9,540	-	9,540
Due to other funds.....	-	32,059	32,059
Capital lease obligations.....	-	74,827	74,827
Compensated absences.....	2,431	-	2,431
Long-term bonds and notes payable.....	<u>240,000</u>	<u>-</u>	<u>240,000</u>
Total current liabilities.....	<u>280,261</u>	<u>149,790</u>	<u>430,051</u>
Noncurrent liabilities:			
Capital lease obligations.....	-	77,588	77,588
Compensated absences.....	21,876	-	21,876
Net OPEB obligation.....	58,456	-	58,456
Long-term bonds and notes payable.....	<u>1,450,000</u>	<u>-</u>	<u>1,450,000</u>
Total noncurrent liabilities.....	<u>1,530,332</u>	<u>77,588</u>	<u>1,607,920</u>
Total liabilities.....	<u>1,810,593</u>	<u>227,378</u>	<u>2,037,971</u>
FUND NET ASSETS			
Invested in capital assets, net of related debt.....	3,782,367	64,677	3,847,044
Unrestricted.....	<u>512,299</u>	<u>(74,964)</u>	<u>437,335</u>
Total net assets.....	<u>\$ 4,294,666</u>	<u>\$ (10,287)</u>	<u>\$ 4,284,379</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Waste Removal (Nonmajor)	Total
OPERATING REVENUES			
Charges for services.....	\$ 985,590	\$ 51,519	\$ 1,037,109
Penalties and interest.....	2,974	-	2,974
Other.....	11,335	-	11,335
TOTAL OPERATING REVENUES.....	999,899	51,519	1,051,418
OPERATING EXPENSES			
Cost of service and administration.....	600,723	450,229	1,050,952
Depreciation.....	185,409	15,204	200,613
TOTAL OPERATING EXPENSES.....	786,132	465,433	1,251,565
OPERATING INCOME (LOSS).....	213,767	(413,914)	(200,147)
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	25	-	25
Interest expense.....	(56,183)	-	(56,183)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(56,158)	-	(56,158)
INCOME (LOSS) BEFORE TRANSFERS.....	157,609	(413,914)	(256,305)
TRANSFERS			
Transfers in.....	245,594	386,014	631,608
Transfers out.....	(303,784)	-	(303,784)
TOTAL TRANSFERS.....	(58,190)	386,014	327,824
CHANGE IN FUND NET ASSETS.....	99,419	(27,900)	71,519
FUND NET ASSETS AT BEGINNING OF YEAR.....	4,195,247	17,613	4,212,860
FUND NET ASSETS AT END OF YEAR.....	\$ 4,294,666	\$ (10,287)	\$ 4,284,379

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water	Waste Removal (Nonmajor)	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 1,009,758	\$ 51,519	\$ 1,061,277
Payments to vendors.....	(326,508)	(406,654)	(733,162)
Payments to employees.....	(264,646)	-	(264,646)
NET CASH FROM OPERATING ACTIVITIES.....	418,604	(355,135)	63,469
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	245,594	386,014	631,608
Transfers out.....	(303,784)	-	(303,784)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(58,190)	386,014	327,824
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on bonds and notes.....	(243,000)	-	(243,000)
Principal payments on capital lease obligations.....	-	(79,880)	(79,880)
Interest expense.....	(56,183)	-	(56,183)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(299,183)	(79,880)	(379,063)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	25	-	25
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	61,256	(49,001)	12,255
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	328,528	49,001	377,529
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 389,784	\$ -	\$ 389,784
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 213,767	\$ (413,914)	\$ (200,147)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities not requiring current expenditure of cash:			
Depreciation.....	185,409	15,204	200,613
Increase in net OPEB obligation.....	17,614	-	17,614
Changes in assets and liabilities requiring current expenditure of cash:			
Water charges.....	(677)	-	(677)
Water liens.....	10,536	-	10,536
Due to other funds.....	-	32,059	32,059
Warrants payable.....	(9,832)	11,516	1,684
Accrued payroll.....	(530)	-	(530)
Compensated absences.....	2,317	-	2,317
Total adjustments.....	204,837	58,779	263,616
NET CASH FROM OPERATING ACTIVITIES.....	\$ 418,604	\$ (355,135)	\$ 63,469

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

ASSETS	<u>Private Purpose Trust Funds</u>
Cash and cash equivalents.....	\$ 66,815
Investments.....	<u>44,307</u>
Total assets.....	<u>111,122</u>
NET ASSETS	
Held in trust for other purposes.....	<u>\$ 111,122</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 58,503
Net investment income:	
Interest.....	<u>746</u>
TOTAL ADDITIONS.....	<u>59,249</u>
DEDUCTIONS	
Other.....	<u>9,703</u>
CHANGE IN NET ASSETS.....	49,546
NET ASSETS AT BEGINNING OF YEAR.....	<u>61,576</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 111,122</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

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

B. Reporting Entity

The Town of Hamilton, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen (Board).

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in several joint ventures (described below) with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Hamilton-Wenham Library

During fiscal year 1998, the Town entered into an agreement with the Town of Wenham (Joint Library Agreement) to construct and operate a joint public library to be operated under the direction of a Joint Board of Library Trustees. The construction project was completed during fiscal year 2002, and the Joint Library began operations during fiscal year 2002. Operating and administrative expenditures are apportioned to the Towns of Hamilton and Wenham based on their assessed values on their last three tax recapitulation sheets. The Town of Wenham is the administrator for all matters associated with the management and operation of the Joint Library. Accordingly, all revenues and expenditures associated with the Joint Library are accounted for by the Town of Wenham. During fiscal year 2012, the Town paid approximately \$545,000 to the Town of Wenham to cover the Town's portion of the operating and administrative costs.

Complete financial statements for the Town of Wenham and the Joint Library can be obtained directly from the Town of Wenham, located at 184 Main Street, Wenham, Massachusetts, 01984.

Hamilton-Wenham Emergency Center

The Hamilton-Wenham Emergency Center (Center) is the control point for all emergency and non-emergency calls for public safety. Operating and administrative expenditures are apportioned to the Towns of Hamilton and Wenham based on their assessed values on their last three tax recapitulation sheets. The Town of Hamilton is the administrator for all matters associated with the management and operation of the Center. Accordingly, all revenues and expenditures associated with the Center are accounted for by the Town of Hamilton. During fiscal year 2012, the Center's operating and administrative expenditures totaled approximately \$425,000. The Town of Wenham paid the Town of Hamilton approximately \$125,000 for their share of the Center's costs.

The Center's activities are accounted for in the Town of Hamilton's general fund. Neither Town has an equity interest in the operation of the Center.

Hamilton-Wenham Recreation Department

The Towns of Hamilton and Wenham operate a joint recreation department (Department). Operating and administrative expenditures are apportioned to the Towns of Hamilton and Wenham based on their assessed values on their last three tax recapitulation sheets. The Town of Hamilton is the administrator for all matters associated with the management and operation of the Department. Accordingly, all revenues and expenditures associated with the Department are accounted for by the Town of Hamilton. During fiscal year 2012, the Department's operating and administrative expenditures totaled approximately \$158,000. The Town of Wenham paid the Town of Hamilton approximately \$50,000 for their share of the Department's costs.

The Department's activities are accounted for in the Town of Hamilton's general fund. Neither Town has an equity interest in the operation of the Department.

Hamilton-Wenham Regional School District

The Hamilton-Wenham Regional School District (District) is governed by a six member school committee consisting of one appointed and two elected representatives from the Town. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Operating costs are apportioned amongst the Towns based on the assessed values on their last three tax recapitulation sheets. Capital costs, including debt service, are apportioned amongst the Towns based on a combination of the three year valuation average and pupil enrollments. For the fiscal year ended June 30, 2012, the Town's assessment for operating and capital costs totaled approximately \$15,291,000 and \$557,000, respectively.

Complete financial statements for the District can be obtained directly from the District located at Administrative Offices, 5 School Street, Wenham, Massachusetts, 01984.

North Shore Technical School

The North Shore Technical School is governed by a sixteen member school district committee consisting of one elected representative of the Town. The Town is indirectly liable for the North Shore Technical School debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2012, the Town's assessment totaled approximately \$177,000. Separate financial statements may be obtained by writing to the Treasurer of the North Shore Technical School at 30 Log Bridge Road, Middleton, Massachusetts 01949.

C. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

D. *Measurement Focus, Basis of Accounting and Basis of Presentation*

Government-Wide and Fund Financial Statements

The government-wide and proprietary funds financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

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

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

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

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges between the general fund and enterprise fund would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The *community preservation fund* is a special revenue fund used to account for the 2% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low-income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

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

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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 of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Proprietary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following proprietary funds are reported:

The *water enterprise fund* (major fund) is used to account for the activities of the water department.

The *waste removal enterprise fund* (nonmajor fund) is used to account for the activities of the pay-as-you-throw waste removal program.

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

The following fiduciary fund type is reported:

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

E. Deposits and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 2% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on a quarterly basis each August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Water Charges and Water Liens

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

Departmental and Other

Departmental and other receivables primarily consist of police details and are recorded as receivables in the fiscal year accrued.

Loans

The Health Department administers septic loan programs that provide assistance to residents to upgrade their septic systems. Loans are recorded as receivables at the time of issuance.

Intergovernmental

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

G. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Certain tax liens
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- Community preservation surcharges
- Water charges and liens
- Loans

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, improvements, buildings, machinery and equipment, vehicles, library books, software and infrastructure (e.g., roads, water mains and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Depreciable assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Improvements.....	20
Buildings.....	40 - 50
Machinery and equipment.....	5 - 10
Vehicles.....	5 - 10
Library books.....	10
Software.....	5
Infrastructure.....	20 - 50

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

Governmental Funds Financial Statements

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

K. *Interfund Receivables and Payables*

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. *Interfund Transfers*

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. *Deferred Revenue*

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

N. *Net Assets and Fund Balances***Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Assets)**

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Other postemployment benefits" represents amounts restricted (in accordance with MGL, Chapter 32B, Section 20) for other postemployment benefits.

"Community preservation" represents amounts restricted for the purpose of acquiring land for conservation, recreational, and affordable housing projects.

“Affordable housing” represents amounts restricted (in accordance with MGL, Chapter 44, Section 55C) for the creation and preservation of affordable housing within the Town.

“Loans” represents outstanding septic loans receivable.

“Permanent funds – expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds – nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents other restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of Town meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town meeting.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town’s structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses.

Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

P. Investment Income

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

Investment income from the water enterprise is retained in the fund. Investment income from the waste removal enterprise fund is voluntarily transferred to the general fund.

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 12, the Town provides health insurance coverage for current and future retirees and their spouses.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

The total column 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

Increases or transfers between and within departments subsequent to the approval of the annual budget requires majority Town Meeting approval via Special Town Meeting.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized \$25,183,938 in appropriations and other amounts to be raised. During fiscal year 2012, supplemental appropriations totaling \$420 were authorized.

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

B. Individual Fund Deficits

At June 30, 2012, the following fund deficits exist:

Fund	Amount	Funding Source
Energy Conservation.....	\$ 71,269	State grant
ECO Grant.....	30,199	State grant
Waste Removal (nonmajor enterprise).....	10,287	User charges and available funds

NOTE 3 - DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and the private purpose trust funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2012, \$1,357,742 of the Town's bank balance of \$4,855,232 was uninsured and uncollateralized.

Investments Summary

The Town's investments at June 30, 2012 are presented in the following table. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
U.S. Agencies.....	\$ 855,689	\$ -	\$ 855,689
Corporate bonds.....	278,573	-	278,573
Money market mutual funds.....	506,105	506,105	-
Mutual bond funds.....	212,763	212,763	-
Certificates of deposit.....	1,070,897	504,505	566,392
External investment pools.....	18,963	18,963	-
Total debt securities.....	2,942,990	\$ 1,242,336	\$ 1,700,654
<u>Other Investments:</u>			
Equity securities.....	43,903		
Equity mutual funds.....	30,557		
Total other investments.....	74,458		
Total investments.....	\$ 3,017,448		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2012, the Town's investments were not exposed to custodial credit.

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2012, the credit ratings of the Town's investments in debt securities are as follows:

Investment Type	Fair Value	Quality Ratings		
		AA+	BBB+	Unrated
Corporate bonds.....	\$ 278,573	\$ 130,306	\$ 148,267	\$ -
Money market mutual funds.....	506,105	-	-	506,105
Certificates of deposit.....	1,070,897	-	-	1,070,897
Mutual bond funds.....	212,763	-	-	212,763
External investment pools (MMDT)	18,963	-	-	18,963
Total.....	<u>\$ 2,087,301</u>	<u>\$ 130,306</u>	<u>\$ 148,267</u>	<u>\$ 1,808,728</u>

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2012, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 172,427	\$ -	\$ 172,427
Real estate tax deferrals.....	144,557	-	144,557
Tax liens.....	551,031	(198,354)	352,677
Motor vehicle and other excise taxes.....	51,494	-	51,494
Community preservation surcharges.....	2,347	-	2,347
Departmental and other.....	10,875	-	10,875
Intergovernmental.....	116,924	-	116,924
Loans.....	11,234	-	11,234
	<u>\$ 1,060,889</u>	<u>\$ (198,354)</u>	<u>\$ 862,535</u>

At June 30, 2012, receivables for the water and waste removal enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water.....	\$ 241,980	\$ -	\$ 241,980
Water liens.....	1,128	-	1,128
Intergovernmental.....	80,256	-	80,256
	<u>\$ 323,364</u>	<u>\$ -</u>	<u>\$ 323,364</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

<u>Receivable type:</u>	<u>General Fund</u>	<u>Community Preservation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 134,453	\$ -	\$ -	\$ 134,453
Real estate tax deferrals.....	144,557	-	-	144,557
Tax liens.....	352,677	-	-	352,677
Motor vehicle and other excise taxes.....	51,494	-	-	51,494
Community preservation surcharges.....	-	2,347	-	2,347
Departmental and other.....	-	-	10,875	10,875
Tax foreclosures.....	163,014	-	-	163,014
Total.....	<u>\$ 846,195</u>	<u>\$ 2,347</u>	<u>10,875</u>	<u>\$ 859,417</u>

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,428,053	\$ -	\$ -	\$ 1,428,053
<u>Capital assets being depreciated:</u>				
Improvements.....	986,062	125,872	(91,814)	1,020,120
Buildings.....	13,545,732	-	-	13,545,732
Machinery and equipment.....	1,065,332	42,983	-	1,108,315
Vehicles.....	1,408,467	-	(13,000)	1,395,467
Library books.....	265,666	-	-	265,666
Software.....	20,765	-	-	20,765
Infrastructure.....	6,085,933	226,320	(107,925)	6,204,328
Total capital assets being depreciated.....	23,377,957	395,175	(212,739)	23,560,393
<u>Less accumulated depreciation for:</u>				
Improvements.....	(241,825)	(37,003)	2,295	(276,533)
Buildings.....	(4,157,565)	(307,103)	-	(4,464,668)
Machinery and equipment.....	(579,537)	(74,478)	-	(654,015)
Vehicles.....	(1,173,631)	(73,204)	13,000	(1,233,835)
Library books.....	(225,818)	(26,567)	-	(252,385)
Software.....	(20,765)	-	-	(20,765)
Infrastructure.....	(4,045,700)	(112,526)	39,795	(4,118,431)
Total accumulated depreciation.....	(10,444,841)	(630,881)	55,090	(11,020,632)
Total capital assets being depreciated, net.....	12,933,116	(235,706)	(157,649)	12,539,761
Total governmental activities capital assets, net.....	\$ 14,361,169	\$ (235,706)	\$ (157,649)	\$ 13,967,814

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 283,912	\$ -	\$ -	\$ 283,912
<u>Capital assets being depreciated:</u>				
Buildings.....	3,454,199	-	-	3,454,199
Machinery and equipment.....	75,500	152,039	-	227,539
Vehicles.....	61,712	-	-	61,712
Infrastructure.....	5,356,164	-	-	5,356,164
Total capital assets being depreciated.....	<u>8,947,575</u>	<u>152,039</u>	<u>-</u>	<u>9,099,614</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(721,855)	(79,710)	-	(801,565)
Machinery and equipment.....	(69,725)	(16,254)	-	(85,979)
Vehicles.....	(54,395)	(6,171)	-	(60,566)
Infrastructure.....	(2,727,736)	(98,478)	-	(2,826,214)
Total accumulated depreciation.....	<u>(3,573,711)</u>	<u>(200,613)</u>	<u>-</u>	<u>(3,774,324)</u>
Total capital assets being depreciated, net.....	<u>5,373,864</u>	<u>(48,574)</u>	<u>-</u>	<u>5,325,290</u>
Total business-type activities capital assets, net.....	<u>\$ 5,657,776</u>	<u>\$ (48,574)</u>	<u>\$ -</u>	<u>\$ 5,609,202</u>

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

Governmental Activities:

General government.....	\$ 28,373
Public safety.....	242,333
Education.....	37,890
Public works.....	169,138
Culture and recreation.....	<u>153,147</u>

Total depreciation expense - governmental activities..... \$ 630,881

Business-Type Activities:

Water.....	\$ 185,409
Waste removal.....	<u>15,204</u>

Total depreciation expense - business-type activities..... \$ 200,613

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2012, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund.....	Waste removal enterprise fund.....	\$ <u>32,059</u> (1)

(1) Represents temporary cash advance to the waste removal enterprise fund

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

<u>Transfers Out:</u>	<u>Transfers In:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water Enterprise Fund</u>	<u>Waste Removal Fund</u>	
General Fund.....	\$ -	\$ 2,000	\$ 245,594	\$ 364,270	\$ 611,864 (1)
Community Preservation Fund.....	-	125,000	-	-	125,000 (2)
Nonmajor Governmental Funds.....	22,000	186,736	-	21,744	230,480 (3)
Water Enterprise Fund.....	<u>303,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>303,784</u> (4)
	<u>\$ 325,784</u>	<u>\$ 313,736</u>	<u>\$ 245,594</u>	<u>\$ 386,014</u>	<u>\$ 1,271,128</u>

(1) Represents budgeted transfers to the water enterprise fund for debt service costs (\$245,594) and general fund subsidy of the waste removal enterprise fund (\$364,270). Also represents a transfer from the general fund to the forest fire special revenue fund (\$2,000).

(2) Represents a transfer from the Community Preservation major fund for the funding of the Affordable Housing special revenue fund (\$125,000).

(3) Represents budgeted transfers from the cemetery perpetual care (\$20,000) and sale of lots and graves (\$2,000) funds. Also represents a transfer from the library capital projects fund to the landfill capital projects fund (\$185,940), a transfer to the waste removal enterprise fund to close out the home compost special revenue fund (\$21,744) and a transfer from the Clark fund (\$796) to the conservation commission fund.

(4) Represents a budgeted transfer from the water enterprise fund (\$303,784) to the general fund for indirect costs.

NOTE 7 - SHORT-TERM FINANCING

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

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

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

The Town has no short-term debt outstanding at June 30, 2012, and did not issue or retire any short-term debt during the fiscal year.

NOTE 8 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 6,282,000	\$ -	\$ (527,000)	\$ 5,755,000	\$ 520,000
Capital lease obligations.....	26,580	-	(26,580)	-	-
Landfill closure and post-closure.....	2,564,300	-	(1,651,300)	913,000	-
Net OPEB obligation.....	775,577	511,932	(141,002)	1,146,507	-
Compensated absences.....	222,156	-	(22,209)	199,947	19,995
Total.....	<u>\$ 9,870,613</u>	<u>\$ 511,932</u>	<u>\$ (2,368,091)</u>	<u>\$ 8,014,454</u>	<u>\$ 539,995</u>
Business-type Activities:					
Bonds and notes payable.....	\$ 1,933,000	-	(243,000)	\$ 1,690,000	\$ 240,000
Capital lease obligations.....	-	232,295	(79,880)	152,415	74,827
Net OPEB obligation.....	40,842	24,309	(6,695)	58,456	-
Compensated absences.....	21,990	2,317	-	24,307	2,431
Total.....	<u>\$ 1,995,832</u>	<u>\$ 258,921</u>	<u>\$ (329,575)</u>	<u>\$ 1,925,178</u>	<u>\$ 317,258</u>

Except for bonds issued for the community preservation fund, long-term liabilities of governmental activities are generally liquidated by the general fund. Long-term debt issued for community preservation projects are liquidated by the community preservation fund.

NOTE 9 - LONG-TERM DEBT

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

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate %	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Public Safety Building.....	3.65 - 5.00	\$ 4,435,000	\$ -	\$ (300,000)	\$ 4,135,000
State House Serial Loan Notes.....	5.20	150,000	-	(25,000)	125,000
Library Refunding.....	2.00 - 3.00	1,065,000	-	(125,000)	940,000
Donovan Property.....	2.00 - 3.00	366,000	-	(46,000)	320,000
Energy Services Contract (ESCO).....	2.00 - 3.00	266,000	-	(31,000)	235,000
Total governmental funds.....		<u>\$ 6,282,000</u>	<u>\$ -</u>	<u>\$ (527,000)</u>	<u>\$ 5,755,000</u>

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 520,000	\$ 197,382	\$ 717,382
2014.....	520,000	180,184	700,184
2015.....	515,000	162,984	677,984
2016.....	515,000	145,882	660,882
2017.....	510,000	129,309	639,309
2018.....	485,000	112,358	597,358
2019.....	480,000	95,633	575,633
2020.....	470,000	79,076	549,076
2021.....	290,000	62,784	352,784
2022.....	290,000	51,692	341,692
2023.....	290,000	40,455	330,455
2024.....	290,000	29,000	319,000
2025.....	290,000	17,400	307,400
2026.....	290,000	5,800	295,800
Total.....	<u>\$ 5,755,000</u>	<u>\$ 1,309,939</u>	<u>\$ 7,064,939</u>

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate %	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water Bonds Refunding.....	2.00 - 3.00	\$ 1,623,000	\$ -	\$ (198,000)	\$ 1,425,000
Water Plant.....	2.00 - 3.00	310,000	-	(45,000)	265,000
Total Enterprise funds.....		<u>\$ 1,933,000</u>	<u>\$ -</u>	<u>\$ (243,000)</u>	<u>\$ 1,690,000</u>

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 240,000	\$ 40,300	\$ 280,300
2014.....	235,000	35,499	270,499
2015.....	230,000	30,801	260,801
2016.....	225,000	26,199	251,199
2017.....	220,000	21,701	241,701
2018.....	210,000	16,200	226,200
2019.....	165,000	9,900	174,900
2020.....	165,000	4,950	169,950
Total.....	<u>\$ 1,690,000</u>	<u>\$ 185,550</u>	<u>\$ 1,875,550</u>

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

Purpose	Amount
Water.....	\$ 5,000,000
Landfill closure.....	2,000,000
Departmental equipment & culvert....	175,000
Land acquisition.....	500
Total.....	<u>\$ 7,175,500</u>

NOTE 10 - CAPITAL LEASES

The Town has entered into a capital lease agreement for trash barrels and bins under which the trash barrels and bins will become property of the Town when all terms of the lease agreement are met.

The following schedule presents the future minimum lease payments as of June 30, 2012:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Business-Type</u> <u>Activities</u>
2012.....	\$ 80,451
2013.....	80,451
Total minimum lease payments.....	160,902
Less: amounts representing interest.....	<u>(8,487)</u>
Present value of minimum lease payments.....	<u>\$ 152,415</u>

The trash barrels and bins and the related accumulated amortization under capital leases are as follows:

<u>Asset:</u>	<u>Business-Type</u> <u>Activities</u>
Machinery and equipment.....	\$ 152,039
Less: accumulated amortization.....	<u>(15,204)</u>
Total.....	<u>\$ 136,835</u>

Amortization of the leased trash barrels and bins under capital leases is included with depreciation expense.

Inter-Municipal Agreement

The Town has entered into an inter-municipal agreement (Agreement) with the Town of Wenham that, among other things, authorized the Town to execute a lease/purchase of trash barrels and bins on behalf of the Town of Wenham. Approximately 35% of the capital lease (referenced above) and related assets represent the Town of Wenham's proportionate share. As a result, an intergovernmental accounts receivable of \$80,256 is reported in the Town's waste removal enterprise fund. The total cost of the trash barrels and bins purchase under this capital lease totals \$232,295.

NOTE 11 - LANDFILL CLOSURE

State and federal laws and regulations required the Town to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that was divided between two cells (hereinafter referred to as Area 1 and Area 2). Area 1 ceased operations in 1978 and, accordingly, was capped in 1980 in accordance with the regulations in effect at that time. Area 2 ceased operations in 1983. However, Area 2 was not capped in accordance with the regulations in effect at that time. As a result, the Town contracted a third-party to perform a comprehensive site assessment and has been working with the Department of Environmental Protection to determine the steps required to be in compliance with applicable laws and regulations.

The Department of Environmental Protection is requiring the Town to re-cap its old landfill based on current regulations. As a result, the Town has reflected \$913,000 as the estimated landfill closure liability at June 30, 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2011, the latest actuarial valuation, is as follows:

Active employees.....	57
Retired employees.....	<u>35</u>
Total.....	<u><u>92</u></u>

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town are 45% and 55%, respectively. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in 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 (or funding excess) 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 actual amount contributed to the plan, and changes in the Town net OPEB obligation:

	<u>Amount</u>
Annual required contribution.....	\$ 436,521
Interest on net OPEB obligation.....	32,657
Adjustment to annual required contribution.....	(70,604)
Amortization of actuarial (gains)/losses.....	<u>137,667</u>
Annual OPEB cost.....	536,241
Contributions made.....	<u>(147,697)</u>
Increase in net OPEB obligation.....	388,544
Net OPEB obligation at beginning of year.....	<u>816,419</u>
Net OPEB obligation at end of year.....	<u><u>\$ 1,204,963</u></u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2010.....	\$ 408,046	34.2%	\$ 552,452
June 30, 2011.....	409,934	35.6%	816,419
June 30, 2012.....	536,241	27.5%	1,204,963

Funded Status and Funding Progress - The funded status of the Plan at July 1, 2011, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/11	\$ -	\$ 5,567,972	\$ 5,567,972	-	\$ 4,291,115	130%

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 schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2011
Actuarial cost method:	Projected Unit Credit
Amortization method:	Amortized as level dollar amount over 30 years at transition
Remaining amortization period:	27 years at July 1, 2011
Interest discount rate:	4.00%

Healthcare/Medical cost trend rate: 7.00% decreasing by 1.00% for 2 years to an ultimate level of 5.00% per year

Projected salary increases: 3.00% annually

Allocation of AOPEBC - AOPEBC costs were allocated to the Town's functions as follows:

Governmental Activities:	
General government.....	\$ 112,453
Public safety.....	265,959
Public works.....	93,745
Health and human services.....	18,818
Culture and recreation.....	<u>20,957</u>
Total AOPEBC - governmental activities.....	<u>511,932</u>
Business-Type Activities:	
Water.....	<u>24,309</u>
Total AOPEBC.....	<u><u>\$ 536,241</u></u>

NOTE 13 - FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 277,388	\$ 277,388
Loans.....	-	-	11,234	11,234
Sub-total - Nonspendable.....	-	-	288,622	288,622
Restricted for:				
Community preservation.....	-	1,916,496	-	1,916,496
Other post employment benefits.....	49,450	-	-	49,450
Affordable housing.....	-	-	125,160	125,160
Employee benefits.....	-	-	143	143
General government.....	-	-	387,804	387,804
Public safety.....	-	-	15,124	15,124
Public works.....	-	-	317,289	317,289
Health and human services.....	-	-	105,630	105,630
Culture and recreation.....	-	-	252,601	252,601
Sub-total - Restricted.....	49,450	1,916,496	1,203,751	3,169,697
Committed to:				
Subsequent year's expenditures.....	392,500	-	-	392,500
Continuing appropriations.....	73,228	-	-	73,228
Sub-total - Committed.....	465,728	-	-	465,728
Assigned to:				
Encumbrances.....	59,412	-	-	59,412
Unassigned.....	3,006,528	-	(101,468)	2,905,060
	<u>\$ 3,581,118</u>	<u>\$ 1,916,496</u>	<u>\$ 1,390,905</u>	<u>\$ 6,888,519</u>

NOTE 14 - STABILIZATION FUNDS

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2012 totals \$733,124 and is reported in the general fund as unassigned fund balance.

NOTE 15 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town participates in a health insurance risk pool trust administered by Massachusetts Interlocal Insurance Association (Association), which was founded to establish insurance cost stability for Massachusetts' entities. The Association offers a variety of premium based plans to its members with each participating governmental unit being charged a premium for coverage based on rates established by the Association. The Town is obligated to pay the Association its required premiums and, in the event that the Association is terminated, its pro-rata share of a deficit, should one exist. These premium based payments are recorded as expenditures in the General Fund.

Workers' compensation activities are recorded in the General Fund where expenditures are recognized when the claims are expected to be paid with current expendable available resources. As of June 30, 2012, there were no outstanding workers' compensation claims.

NOTE 16 - PENSION PLAN

Plan Description - The Town contributes to the Essex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Essex Regional Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll. The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$550,151, \$565,210, and \$536,288, respectively, which equaled its required contribution for each fiscal year.

NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments were immaterial for the fiscal year ended June 30, 2012, and, accordingly, are not reported in the financial statements.

NOTE 18 - CONTINGENCIES

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

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 19 - HAMILTON DEVELOPMENT CORPORATION

Subsequent to year-end, Chapter 151 of the Acts of 2012 (Act) was enacted by the Massachusetts State Legislature. The Act created the Hamilton Development Corporation (HDC), a body politic and corporate, whose purpose, among other things, is to improve the living standards of the citizenry of the Town by fostering the improvement of employment opportunities and develop, manage and operate public facilities and infrastructure necessary to improve the Town's economy. The HDC is governed by a five (5) member board of directors appointed by the Board of Selectmen.

NOTE 20 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented during fiscal year 2013. The implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

- Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25, which is required to be implemented during fiscal year 2014. The implementation of this Statement will require a change to the title of the Statement of Fiduciary Net Assets to the Statement of Fiduciary Net Position, as well as expanded note disclosures and required supplementary information.

- Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

These pronouncements will be implemented by their respective implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 22,198,961	\$ -	\$ 22,198,961
Motor vehicle and other excise taxes.....	-	951,588	-	951,588
Meals tax.....	-	-	-	-
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	80,000	-	80,000
Intergovernmental.....	-	856,569	-	856,569
Penalties and interest on taxes.....	-	84,880	-	84,880
Licenses and permits.....	-	139,052	-	139,052
Fines and forfeitures.....	-	17,000	-	17,000
Departmental and other.....	-	239,550	-	239,550
Investment income.....	-	17,000	-	17,000
TOTAL REVENUES.....	-	24,584,600	-	24,584,600
EXPENDITURES				
Current:				
General government.....	83,512	1,630,384	(16,867)	1,697,029
Public safety.....	3,869	2,301,296	45,000	2,350,165
Education.....	13,316	16,041,717	-	16,055,033
Public works.....	38,764	1,141,377	(137,209)	1,042,932
Health and human services.....	-	152,737	6,916	159,653
Culture and recreation.....	-	664,599	98,788	763,387
Pension benefits.....	-	610,998	(27,058)	583,940
Employee benefits.....	8,998	856,442	(24,566)	840,874
Property and liability insurance.....	-	173,500	(5,000)	168,500
State and county charges.....	-	230,468	-	230,468
Debt service:				
Principal.....	-	481,000	-	481,000
Interest.....	70,777	225,042	-	295,819
TOTAL EXPENDITURES.....	219,236	24,509,560	(59,996)	24,668,800
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(219,236)	75,040	59,996	(84,200)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	276,366	49,418	325,784
Transfers out.....	-	(674,378)	(60,416)	(734,794)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(398,012)	(10,998)	(409,010)
NET CHANGE IN FUND BALANCE.....	(219,236)	(322,972)	48,998	(493,210)
FUND BALANCE AT BEGINNING OF YEAR.....	1,990,884	1,990,884	1,990,884	1,990,884
FUND BALANCE AT END OF YEAR.....	\$ 1,771,648	\$ 1,667,912	\$ 2,039,882	\$ 1,497,674

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	22,207,110	\$ -	\$ 22,207,110	\$ 8,149
	933,230	-	933,230	(18,358)
	65,829	-	65,829	65,829
	301,728	-	301,728	301,728
	83,353	-	83,353	3,353
	948,587	-	948,587	92,018
	136,941	-	136,941	52,061
	151,795	-	151,795	12,743
	7,845	-	7,845	(9,155)
	305,035	-	305,035	65,485
	10,851	-	10,851	(6,149)
	<u>25,152,304</u>	<u>-</u>	<u>25,152,304</u>	<u>567,704</u>
	1,435,962	128,837	1,564,799	132,230
	2,195,143	3,481	2,198,624	151,541
	16,025,125	-	16,025,125	29,908
	902,918	-	902,918	140,014
	148,139	322	148,461	11,192
	749,592	-	749,592	13,795
	550,077	-	550,077	33,863
	704,753	-	704,753	136,121
	158,488	-	158,488	10,012
	230,068	-	230,068	400
	481,000	-	481,000	-
	215,040	-	215,040	80,779
	<u>23,796,305</u>	<u>132,640</u>	<u>23,928,945</u>	<u>739,855</u>
	<u>1,355,999</u>	<u>(132,640)</u>	<u>1,223,359</u>	<u>1,307,559</u>
	325,784	-	325,784	-
	(736,864)	-	(736,864)	(2,070)
	<u>(411,080)</u>	<u>-</u>	<u>(411,080)</u>	<u>(2,070)</u>
	944,919	(132,640)	812,279	1,305,489
	<u>1,990,884</u>	<u>1,990,884</u>	<u>1,990,884</u>	<u>-</u>
\$	<u>2,935,803</u>	<u>\$ 1,858,244</u>	<u>\$ 2,803,163</u>	<u>\$ 1,305,489</u>

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
01/01/11	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.9%	\$ 119,707,156	215.3%
01/01/08	301,420,965	445,171,554	143,750,589	67.7%	111,726,856	128.7%
01/01/06	261,327,047	376,034,621	114,707,574	69.5%	98,641,094	116.3%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

<u>Year Ended December 31</u>	<u>Annually Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed (%)</u>
2006	\$ 15,274,181	100
2007	16,294,571	100
2008	16,995,636	100
2009	18,173,867	100
2010	19,566,952	100
2011	21,084,190	100

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

<u>Year Ended June 30</u>	<u>ARC</u>	<u>Percentage of ARC Contributed (%)</u>	<u>Town ARC as a Percentage of System ARC (%)</u>
2007	\$ 458,124	100	3.0%
2008	484,450	100	3.0%
2009	506,125	100	3.0%
2010	536,288	100	3.0%
2011	565,210	100	2.9%
2012	550,151	100	2.6%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the Town's other postemployment benefits plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/08	\$ -	\$ 4,163,491	\$ 4,163,491	-	\$ 3,971,852	105%
07/01/11	-	5,567,972	5,567,972	-	4,291,115	130%

NOTE A - BUDGETARY - GAAP RECONCILIATION

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

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 25,152,304	\$ 23,928,945	\$ (411,080)
<u>Reclassifications</u>			
Activity of stabilization fund recorded in the general fund for GAAP purposes.....	4,499	-	100,000
Activity of other post employment benefits fund recorded in the general fund for GAAP purposes.....	(573)	-	25,000
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(132,385)	-	-
Net change in recording tax refunds payable.....	416	-	-
To record encumbrances and continuing appropriations.....	-	(132,640)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 25,024,261</u>	<u>\$ 23,796,305</u>	<u>\$ (286,080)</u>

NOTE B - PENSION PLAN

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for ERI liability for most units, 4.5% annual increases for ERI liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%.
Remaining amortization period:	As of July 1, 2011, schedules as selected by units for 2002 ERI liability, schedules as selected by units for 2003 ERI liability and 24 years for remaining unfunded liability.

Asset valuation method: Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus 20 percent of market value at end of year (as reported in the Annual Statement) in excess of that preliminary value, adjusted to be within 20 percent of their market value.

Actuarial assumptions:

Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income