

TOWN OF BELMONT, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF BELMONT, MASSACHUSETTS

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JUNE 30, 2012

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Belmont, 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 Belmont, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Belmont Contributory Retirement System and Municipal Light Enterprise which are as of December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Belmont, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Belmont Municipal Light Department, a major enterprise fund, which represents 30% and 62%, respectively, of the assets and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Belmont Municipal Light Department, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, 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 Belmont, Massachusetts, as of June 30, 2012 (except for the Belmont Contributory Retirement System and Municipal Light Enterprise which are as of December 31, 2011) and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2013, on our consideration of the Town of Belmont, Massachusetts' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

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

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

Powers & Sullivan, LLC

January 3, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Belmont, we offer readers of the Town's basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012.

The Town provides general government services for the territory within its boundaries, including police and fire protection, public education, water and sewer maintenance, trash disposal, electricity transmission and parks and recreational facilities.

Financial Summary

- The Town's assets exceeded its liabilities at the close of fiscal year 2012 by \$123.4 million.
- The Town's total net assets decreased by \$921,295.
- At the end of fiscal year 2012, the unassigned fund balance for the general fund was \$10.1 million or 12.1% of general fund budgetary expenditures.
- This is the fourth year since the Town implemented GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. At year end, the postemployment benefit (OPEB) liability totaled \$44 million. Please see Note 13 in the financial statements for further details.
- To offset the impact of OPEB liability, the Town established an Other Postemployment Benefits Trust Fund (Trust) to account for funds set aside to help meet future post-retirement benefit costs for retirees. During fiscal 2012 the Town transferred \$105 thousand to the Trust bringing the balance to \$1.3 million.
- At fiscal year end the balance in the Town's Internal Service Fund totaled \$5.7 million, an increase of \$1.7 million from the prior year.

Overview of the Financial Statements

Our discussion and analysis of the Town is intended to serve as an introduction to the Town of Belmont's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This analysis also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business.

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

The *statement of activities* presents information showing how the Town'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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick and vacation time).

Both of the government-wide statement of activities 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*). The governmental activities of the Town include general government, public safety, education, public

works, human services, culture and recreation, community preservation and interest. The business-type activities of the Town include the water, sewer and electricity transmission activities.

The government-wide financial statements include not only the Town of Belmont itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Belmont is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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

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

The Town implemented GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions* during fiscal year 2011. The implementation of this standard changed the fund balance components to nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the Town's general stabilization fund is reported within the general fund as unassigned while the Ash Landfill stabilization fund and the new SPED stabilization fund are reported within the general fund as committed.

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 activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Wellington School Construction Fund which are the Town's major governmental funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

The Town of Belmont adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as Required Supplementary Information fund to demonstrate compliance with this budget.

Proprietary funds. *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 sewer systems and electricity transmission activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer systems, the electricity transmission activities and the internal service fund all of which are considered to be major funds of the Town.

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

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into three classifications: a pension trust fund, a postemployment benefit trust and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Town's agency fund accounts for primarily police off-duty details and school student activity funds.

The Town is the trustee, or fiduciary, for its employees' pension plan and other postemployment benefit plan. The Town's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

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.

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As noted below, assets exceeded liabilities by \$85.1 million at the close of the most recent fiscal year.

Governmental Financial Highlights

| | FY2012 | FY2011 |
|--|----------------------|----------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| | | |
| Assets: | | |
| Current assets..... | \$ 48,002,916 | \$ 49,515,903 |
| Noncurrent assets (excluding capital)..... | 1,100,490 | 1,223,440 |
| Capital assets..... | 135,931,765 | 131,773,712 |
| Total assets..... | 185,035,171 | 182,513,055 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 6,490,856 | 7,302,277 |
| Noncurrent liabilities (excluding debt)..... | 48,283,155 | 37,295,376 |
| Current debt..... | 3,593,191 | 3,553,191 |
| Noncurrent debt..... | 41,698,053 | 46,285,244 |
| Total liabilities..... | 100,065,255 | 94,436,088 |
| Net Assets: | | |
| Capital assets net of related debt..... | 95,370,154 | 92,482,345 |
| Restricted..... | 4,234,867 | 3,839,341 |
| Unrestricted..... | (14,635,105) | (8,244,719) |
| Total net assets..... | \$ 84,969,916 | \$ 88,076,967 |

A significant portion of the Town's net assets, \$95.4 million, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of its 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, \$4.2 million, represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of *unrestricted net assets*, of \$14.6 million is due to the recognition of the liability associated with GASB Statement #45. The deficit balance indicates that the Town does not have enough reserves to meet its ongoing short-term and long-term obligation to its citizens and creditors.

The governmental activities net assets decreased by \$3.1 million in the current fiscal year. The decrease was primarily due an increase in the OPEB liability of \$9.5 million. In fiscal year 2012 the liability, based on its most recent actuarial valuation, totaled \$40.2 million. The decrease was offset by better than expected receipts of \$1.9 million, appropriation turn backs of \$2.1 million, and a surplus in the internal service fund of \$1.7 million, \$494,000 in capital grants related to the Wellington School Project, \$263,000 in Community Preservation grants and the Town's ability to fund capital additions (approximately \$2.0 million) from current year revenues.

Key elements of change in net assets are as follows:

| | FY2012 Governmental Activities | FY2011 Governmental Activities |
|--|---|---|
| Program revenues: | | |
| Charges for services..... | \$ 6,201,488 | \$ 5,860,861 |
| Operating grants and contributions..... | 18,170,169 | 18,033,114 |
| Capital grants and contributions..... | 761,629 | 7,266,789 |
| General Revenues: | | |
| Real estate and personal property taxes..... | 69,223,311 | 67,564,177 |
| Tax liens..... | 227,894 | 50,077 |
| Motor vehicle and other excise taxes..... | 2,851,220 | 2,824,685 |
| Community preservation tax..... | 858,812 | - |
| Premium from issuance of bonds..... | 171,965 | - |
| Nonrestricted grants..... | 2,357,516 | 2,238,188 |
| Penalties and interest on taxes..... | 188,785 | 211,690 |
| Unrestricted investment income..... | 363,603 | 596,843 |
| Total revenues..... | 101,376,392 | 104,646,424 |
| Expenses: | | |
| General government..... | 6,285,124 | 6,048,360 |
| Public safety..... | 17,193,000 | 17,059,919 |
| Education..... | 65,921,496 | 63,632,283 |
| Public works..... | 10,087,492 | 10,028,115 |
| Human services..... | 1,235,136 | 1,151,671 |
| Culture and recreation..... | 2,930,988 | 2,911,249 |
| Interest..... | 1,830,060 | 1,920,184 |
| Total expenses..... | 105,483,296 | 102,751,781 |
| Transfers..... | 999,853 | 997,873 |
| Change in net assets..... | \$ (3,107,051) | \$ 2,892,516 |

Business-type activities

Combined business-type activities net assets increased by \$2.2 million in the current year. The following table identifies key elements of the enterprise operations:

| | FY2012 | | FY2011 |
|--|---------------------------|-----------------|-------------------------|
| | Business-type | | Business-type |
| | Activities | | Activities |
| | <hr/> | | <hr/> |
| Assets: | | | |
| Current assets..... | \$ 20,670,423 | \$ | 18,320,524 |
| Capital assets..... | 39,643,621 | | 37,905,709 |
| Total assets..... | <hr/> 60,314,044 | | <hr/> 56,226,233 |
| Liabilities: | | | |
| Current liabilities (excluding debt)..... | 2,950,816 | | 4,468,048 |
| Noncurrent liabilities (excluding debt)..... | 4,025,280 | | 2,766,729 |
| Current debt..... | 1,136,150 | | 978,270 |
| Noncurrent debt..... | 13,772,602 | | 11,769,746 |
| Total liabilities..... | <hr/> 21,884,848 | | <hr/> 19,982,793 |
| Net Assets: | | | |
| Capital assets net of related debt..... | 26,991,141 | | 25,157,693 |
| Restricted..... | - | | 60,000 |
| Unrestricted..... | 11,438,055 | | 11,025,747 |
| Total net assets..... | <hr/> 38,429,196 | | <hr/> 36,243,440 |
| Program revenues: | | | |
| Charges for services..... | 33,574,377 | | 35,190,566 |
| Capital grants and contributions..... | 457,695 | | 56,580 |
| General Revenues: | | | |
| Unrestricted investment income..... | 18,069 | | 63,604 |
| Total revenues..... | <hr/> 34,050,141 | | <hr/> 35,310,750 |
| Expenses: | | | |
| Water..... | 4,394,914 | | 4,587,649 |
| Sewer..... | 6,626,462 | | 6,460,665 |
| Light..... | 19,843,156 | | 22,035,799 |
| Total expenses..... | <hr/> 30,864,532 | | <hr/> 33,084,113 |
| Transfers..... | <hr/> (999,853) | | <hr/> (997,873) |
| Change in net assets..... | <hr/> \$ 2,185,756 | <hr/> \$ | <hr/> 1,228,764 |

Financial Analysis of the Town’s Governmental Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$31.3 million. Of this amount \$17.6 million relates to the general fund, \$846 thousand relates to the Wellington School Construction fund, and \$12.8 million relates to the nonmajor governmental funds. Overall fund balance increased by \$392 thousand in fiscal year 2012. This was due a budgetary surplus of \$1.9 million, the receipt of \$2.9 million from the Massachusetts School Building Authority, the collection of \$858 thousand of Community Preservation Funds and a \$172 thousand premium on the issuance of notes; which were offset by \$6.7 million of expenditures related to the Wellington School project, \$70 thousand of expenditures related to the senior center project and the timing of grant expenditures versus the recognition of revenue.

The general fund is the chief operating fund. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$10.1 million, while the total fund balance was \$17.6 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.1% of general fund budgetary expenditures, while total fund balance represents 21.1% of that same amount. During fiscal year 2012, the fund balance of the general fund increased by \$1.9 million. The increase was due to better than expected revenue collections combined with the Town's ability to control budgetary spending.

The Wellington School construction fund is used to account for the activities related to the construction of the new school building. During fiscal year 2012, the Town received \$2.9 million of Massachusetts School Building Authority reimbursements and spent \$6.7 million on the project. At June 30, 2012, the fund has a balance of \$846 thousand.

The internal service fund had an ending fund balance of \$5.7 million. Contributions to the fund exceeded claim payments by \$1.7 million and the fund earned \$18 thousand in investment earnings.

Financial Analysis of Proprietary Funds

The Water, Sewer and Light funds maintained positive results of operations and demonstrated the ability to recover all costs from rates.

The net assets of the water, sewer and electric light funds increased \$2.2 million in fiscal year 2012. This performance was primarily the result of slight increases in water and sewer rates, and the sewer departments receipt of an MWRA grant of \$458 thousand and both Department's ability to control costs in a time of decreased usage. The light department experienced an overall 1.4% decrease in kilowatt hours sold due to the cooler summer weather, this reduction was offset by the Department's ability to cut operating costs by 7% and the receipt of \$195 thousand of non-recurring revenues.

General Fund Budgetary Highlights

There was a change of net increase of \$417 thousand between the original and final adopted budgets. Increases in public safety, education and public works and transfers out were offset by decreases in general government and employee benefits.

Capital Asset and Debt Administration

Capital Asset Administration

The Town of Belmont's investment in capital assets for its governmental and business type activities as of June 30, 2012 amounted to \$175.6 million (net of depreciation). This investment in capital assets includes land, buildings, improvements to land and buildings, machinery and equipment, vehicles, roads, sidewalks, bridges and

water and sewer lines. The Town's major capital projects relate to the Wellington School project, an MWPAT Sewer project and various other infrastructure projects.

In conjunction with the operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The Town annually budgets over \$2 million per year from current-year appropriations for capital projects.

Debt Administration

Outstanding governmental long-term debt, as of June 30, 2012, totaled \$45.3 million of which \$28.8 million relates to various School construction projects, \$5.9 million relates to the Town Hall renovation project, \$2.7 million relates to the senior center project and \$7.0 million relates to the Fire Station construction, leaving a balance of \$900 thousand for other CIP projects. The enterprise funds have \$3.8 million in water debt, and \$11.1 million in sewer debt, all of which are fully supported by the rates.

The Town has a "AAA" rating from Moody's for general obligation debt.

Please refer to notes 4, 7, and 8 for further discussion of the major capital and debt activity.

Economic Factors and Next Year's Budget

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2 % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2% taxing limitations can be overridden by Town-wide referendum vote. The Town has taken advantage of this override capability to increase operating budgets and so-called "debt exclusions" that are not subject to the Proposition 2-1/2% limitations.

The Town collects 99.2% of its property tax billings in the year billed. Property taxes billed were \$69.9 million in fiscal year 2012. \$1.6 million of this increase was the allowable increase under Proposition 2 1/2. \$516 thousand of this increase is the product of the certified new growth of the Town. Within this levy approximately \$4.8 million of previous debt exclusions were paid off.

The Town continues to experience growth in residential renovation and development. In fiscal year 2012, 917 building permits were issued, resulting in an increase of \$48.7 million in taxable value. This is a slight decrease in the number of permits issued however it resulted in an overall \$7.2 million increase in taxable value from the 2011 value levels, which generated 984 permits resulting in \$41.5 million in value. This activity has produced new growth tax revenue, which is exempt from the limitation imposed by Proposition 2 1/2. For fiscal year 2012, the Town realized \$515,961 in new taxes from this source.

The unemployment rate for Belmont as of September 2012 was 4.4% compared to the state figure of 6.6% and the nationwide figure of 7.8%. The Town collected 99.2% of all tax billings by year end.

Requests for Information

This financial report is designed to provide a general overview of the Town of Belmont's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, Town Hall, 19 Moore Street, Belmont, MA 02478.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2012

| | <i>Primary Government</i> | | |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 36,384,843 | \$ 11,949,582 | \$ 48,334,425 |
| Investments..... | 7,195,123 | - | 7,195,123 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 849,712 | - | 849,712 |
| Real estate tax deferrals..... | 629,351 | - | 629,351 |
| Tax liens..... | 830,858 | 99,392 | 930,250 |
| Motor vehicle excise taxes..... | 137,460 | - | 137,460 |
| User fees..... | - | 4,621,118 | 4,621,118 |
| Departmental and other..... | 559,145 | - | 559,145 |
| Intergovernmental..... | 1,162,726 | 61,132 | 1,223,858 |
| Inventory..... | 131,807 | 422,975 | 554,782 |
| Prepaid expenses..... | - | 23,284 | 23,284 |
| Purchased power advanced deposits..... | - | 1,652,068 | 1,652,068 |
| Unamortized bond issue costs..... | 29,112 | - | 29,112 |
| Deferred charges on refunding..... | 92,779 | - | 92,779 |
| NONCURRENT: | | | |
| Restricted cash and cash equivalents..... | - | 1,840,872 | 1,840,872 |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | 331,000 | - | 331,000 |
| Unamortized bond issue costs..... | 264,328 | - | 264,328 |
| Deferred charges on refunding..... | 505,162 | - | 505,162 |
| Capital assets, non depreciable..... | 16,450,620 | 1,755,172 | 18,205,792 |
| Capital assets, depreciable..... | 119,481,145 | 37,888,449 | 157,369,594 |
| TOTAL ASSETS..... | 185,035,171 | 60,314,044 | 245,349,215 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 2,347,617 | 1,728,606 | 4,076,223 |
| Accrued liabilities..... | - | 13,354 | 13,354 |
| Accrued payroll..... | 520,958 | - | 520,958 |
| Health claims payable..... | 1,600,000 | - | 1,600,000 |
| Tax refunds payable..... | 364,000 | - | 364,000 |
| Accrued interest..... | 710,729 | 66,817 | 777,546 |
| Other liabilities..... | 476,222 | 1,126,443 | 1,602,665 |
| Capital lease obligations..... | 279,009 | - | 279,009 |
| Compensated absences..... | 62,674 | 15,596 | 78,270 |
| Unamortized premium on bonds payable..... | 129,647 | - | 129,647 |
| Bonds payable..... | 3,593,191 | 1,136,150 | 4,729,341 |
| NONCURRENT: | | | |
| Capital lease obligations..... | 988,931 | - | 988,931 |
| Landfill closure..... | 3,807,500 | - | 3,807,500 |
| Compensated absences..... | 1,190,815 | 296,321 | 1,487,136 |
| Unamortized premium on bonds payable..... | 2,049,039 | - | 2,049,039 |
| Other postemployment benefits..... | 40,246,870 | 3,728,959 | 43,975,829 |
| Bonds payable..... | 41,698,053 | 13,772,602 | 55,470,655 |
| TOTAL LIABILITIES..... | 100,065,255 | 21,884,848 | 121,950,103 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 95,370,154 | 26,991,141 | 122,361,295 |
| Restricted for: | | | |
| Permanent funds: | | | |
| Expendable..... | 892,087 | - | 892,087 |
| Nonexpendable..... | 2,083,618 | - | 2,083,618 |
| Other purposes..... | 1,259,162 | - | 1,259,162 |
| Unrestricted..... | (14,635,105) | 11,438,055 | (3,197,050) |
| TOTAL NET ASSETS..... | \$ 84,969,916 | \$ 38,429,196 | \$ 123,399,112 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

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: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 6,285,124 | \$ 493,484 | \$ 82,008 | \$ 5,180 | \$ (5,704,452) |
| Public safety..... | 17,193,000 | 811,593 | 402,205 | - | (15,979,202) |
| Education..... | 65,921,496 | 2,799,801 | 17,442,423 | 493,716 | (45,185,556) |
| Public works..... | 10,087,492 | 1,072,097 | 21,275 | - | (8,994,120) |
| Human services..... | 1,235,136 | 182,154 | 114,081 | - | (938,901) |
| Culture and recreation..... | 2,930,988 | 842,359 | 56,577 | - | (2,032,052) |
| Community preservation..... | - | - | - | 262,733 | 262,733 |
| Interest..... | 1,830,060 | - | 51,600 | - | (1,778,460) |
| Total Governmental Activities..... | 105,483,296 | 6,201,488 | 18,170,169 | 761,629 | (80,350,010) |
| <i>Business-Type Activities:</i> | | | | | |
| Water..... | 4,394,914 | 5,260,523 | - | - | 865,609 |
| Sewer..... | 6,626,462 | 7,304,226 | - | 457,695 | 1,135,459 |
| Light..... | 19,843,156 | 21,009,628 | - | - | 1,166,472 |
| Total Business-Type Activities..... | 30,864,532 | 33,574,377 | - | 457,695 | 3,167,540 |
| Total Primary Government..... | \$ 136,347,828 | \$ 39,775,865 | \$ 18,170,169 | \$ 1,219,324 | \$ (77,182,470) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

| | Primary Government | | |
|---|-----------------------------|-----------------------------|------------------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net assets: | | | |
| Net (expense) revenue from previous page..... | \$ (80,350,010) | \$ 3,167,540 | \$ (77,182,470) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 69,223,311 | - | 69,223,311 |
| Tax liens..... | 227,894 | - | 227,894 |
| Motor vehicle and other excise taxes..... | 2,851,220 | - | 2,851,220 |
| Community preservation tax..... | 858,812 | - | 858,812 |
| Penalties and interest on taxes..... | 188,785 | - | 188,785 |
| Premium from issuance of bonds..... | 171,965 | - | 171,965 |
| Grants and contributions not restricted to specific programs..... | 2,357,516 | - | 2,357,516 |
| Unrestricted investment income..... | 363,603 | 18,069 | 381,672 |
| <i>Transfers, net</i> | 999,853 | (999,853) | - |
| Total general revenues and transfers..... | <u>77,242,959</u> | <u>(981,784)</u> | <u>76,261,175</u> |
| Change in net assets..... | (3,107,051) | 2,185,756 | (921,295) |
| <i>Net Assets:</i> | | | |
| Beginning of year..... | <u>88,076,967</u> | <u>36,243,440</u> | <u>124,320,407</u> |
| End of year..... | \$ <u><u>84,969,916</u></u> | \$ <u><u>38,429,196</u></u> | \$ <u><u>123,399,112</u></u> |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

| ASSETS | General | Wellington School Construction | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------------|-----------------------------------|--------------------------------|
| Cash and cash equivalents..... | \$ 20,713,384 | \$ 2,112,592 | \$ 6,221,834 | \$ 29,047,810 |
| Investments..... | 256,669 | - | 6,938,454 | 7,195,123 |
| Receivables, net of uncollectibles: | | | | |
| Real estate and personal property taxes..... | 849,712 | - | - | 849,712 |
| Real estate tax deferrals..... | 629,351 | - | - | 629,351 |
| Tax liens..... | 830,858 | - | - | 830,858 |
| Motor vehicle excise taxes..... | 137,460 | - | - | 137,460 |
| Departmental and other..... | 548,570 | - | 10,575 | 559,145 |
| Intergovernmental..... | 662,000 | - | 831,726 | 1,493,726 |
| TOTAL ASSETS..... | \$ 24,628,004 | \$ 2,112,592 | \$ 14,002,589 | \$ 40,743,185 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Warrants payable..... | \$ 724,121 | \$ 1,266,176 | \$ 357,073 | \$ 2,347,370 |
| Accrued payroll..... | 520,958 | - | - | 520,958 |
| Tax refunds payable..... | 364,000 | - | - | 364,000 |
| Other liabilities..... | 476,222 | - | - | 476,222 |
| Deferred revenues..... | 4,896,337 | - | 838,425 | 5,734,762 |
| TOTAL LIABILITIES..... | 6,981,638 | 1,266,176 | 1,195,498 | 9,443,312 |
| FUND BALANCES: | | | | |
| Nonspendable..... | - | - | 2,083,618 | 2,083,618 |
| Restricted..... | - | 846,416 | 10,723,473 | 11,569,889 |
| Committed..... | 4,590,112 | - | - | 4,590,112 |
| Assigned..... | 2,924,030 | - | - | 2,924,030 |
| Unassigned..... | 10,132,224 | - | - | 10,132,224 |
| TOTAL FUND BALANCES..... | 17,646,366 | 846,416 | 12,807,091 | 31,299,873 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 24,628,004 | \$ 2,112,592 | \$ 14,002,589 | \$ 40,743,185 |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

| | | |
|---|--------------|--------------------------|
| Total governmental fund balances..... | \$ | 31,299,873 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 135,931,765 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds..... | | 5,734,762 |
| Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities. | | |
| The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets..... | | 5,736,786 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (710,729) |
| Inventory is capitalized in the Statement of Activities..... | | 131,807 |
| Bond issue costs are capitalized in the Statement of Activities..... | | 293,440 |
| 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..... | (45,291,244) | |
| Capital lease obligations..... | (1,267,940) | |
| Landfill closure..... | (3,807,500) | |
| Unamortized premium on bonds payable..... | (2,178,686) | |
| Other postemployment benefits payable..... | (40,246,870) | |
| Compensated absences..... | (1,253,489) | |
| Net effect of reporting long-term liabilities..... | | <u>(94,045,729)</u> |
| In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued..... | | <u>597,941</u> |
| Net assets of governmental activities..... | \$ | <u><u>84,969,916</u></u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

| | General | Wellington School Construction | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 69,066,625 | \$ - | \$ - | \$ 69,066,625 |
| Tax liens..... | 77,135 | - | - | 77,135 |
| Motor vehicle and other excise taxes..... | 2,832,809 | - | - | 2,832,809 |
| Charges for services..... | 1,938,327 | - | - | 1,938,327 |
| Penalties and interest on taxes..... | 188,785 | - | - | 188,785 |
| Licenses and permits..... | 1,071,045 | - | - | 1,071,045 |
| Fines and forfeitures..... | 305,549 | - | - | 305,549 |
| Intergovernmental..... | 16,705,612 | 2,926,818 | 4,570,755 | 24,203,185 |
| Departmental and other..... | - | - | 3,350,326 | 3,350,326 |
| Community preservation tax..... | - | - | 858,812 | 858,812 |
| Contributions..... | - | - | 156,990 | 156,990 |
| Investment income (loss)..... | 164,597 | - | 180,559 | 345,156 |
| Miscellaneous..... | - | - | 1,998 | 1,998 |
| TOTAL REVENUES..... | 92,350,484 | 2,926,818 | 9,119,440 | 104,396,742 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 3,177,601 | - | 136,126 | 3,313,727 |
| Public safety..... | 11,303,132 | - | 382,889 | 11,686,021 |
| Education..... | 50,846,299 | 6,670,414 | 6,549,531 | 64,066,244 |
| Public works..... | 7,361,360 | - | 2,105,920 | 9,467,280 |
| Human services..... | 771,171 | - | 109,960 | 881,131 |
| Culture and recreation..... | 2,424,230 | - | 134,299 | 2,558,529 |
| Pension benefits..... | 5,051,044 | - | - | 5,051,044 |
| Employee benefits..... | 1,677,162 | - | - | 1,677,162 |
| State and county charges..... | 1,506,670 | - | - | 1,506,670 |
| Debt service: | | | | |
| Principal..... | 3,553,191 | - | - | 3,553,191 |
| Interest..... | 1,863,331 | - | - | 1,863,331 |
| TOTAL EXPENDITURES..... | 89,535,191 | 6,670,414 | 9,418,725 | 105,624,330 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 2,815,293 | (3,743,596) | (299,285) | (1,227,588) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from refunding bonds..... | 9,956,000 | - | - | 9,956,000 |
| Premium from issuance of bonds..... | 171,965 | - | - | 171,965 |
| Premium from issuance of refunding bonds..... | 1,591,941 | - | - | 1,591,941 |
| Payments to refunded bond escrow agent..... | (11,547,941) | - | - | (11,547,941) |
| Capital lease financing..... | - | - | 448,096 | 448,096 |
| Transfers in..... | 1,326,492 | - | 2,574,641 | 3,901,133 |
| Transfers out..... | (2,372,236) | - | (529,044) | (2,901,280) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | (873,779) | - | 2,493,693 | 1,619,914 |
| NET CHANGE IN FUND BALANCES..... | 1,941,514 | (3,743,596) | 2,194,408 | 392,326 |
| FUND BALANCES AT BEGINNING OF YEAR..... | 15,704,852 | 4,590,012 | 10,612,683 | 30,907,547 |
| FUND BALANCES AT END OF YEAR..... | \$ 17,646,366 | \$ 846,416 | \$ 12,807,091 | \$ 31,299,873 |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

| | | |
|--|--------------------|-----------------------|
| Net change in fund balances - total governmental funds..... | | \$ 392,326 |
| <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.</p> | | |
| Capital outlay..... | 8,643,116 | |
| Depreciation expense..... | <u>(4,485,063)</u> | |
| Net effect of reporting capital assets..... | | 4,158,053 |
| <p>Governmental funds report inventories as expenditures. However in the Statement of Activities the cost of those assets is capitalized and expensed when depleted.....</p> | | |
| | | 5,265 |
| <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> | | |
| | | (3,210,762) |
| <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 effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p> | | |
| Amortization of issuance costs..... | (29,112) | |
| Amortization of bond premiums..... | 129,647 | |
| Proceeds from capital lease financing..... | (448,096) | |
| Principal payments on capital leases..... | 165,793 | |
| Proceeds from refunding bonds..... | (9,956,000) | |
| Payments to refunded bond escrow agent..... | 11,547,941 | |
| Premium from issuance of bonds..... | (1,591,941) | |
| Debt service principal payments..... | <u>3,553,191</u> | |
| Net effect of reporting long-term debt..... | | 3,371,423 |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p> | | |
| Net change in compensated absences accrual..... | 214,557 | |
| Net change in accrued interest on long-term debt..... | (67,264) | |
| Net change in landfill closure accrual..... | (103,500) | |
| Net change in other postemployment benefits..... | <u>(9,536,324)</u> | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | (9,492,531) |
| <p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p> | | |
| The net activity of internal service funds is reported with Governmental Activities..... | | <u>1,669,175</u> |
| Change in net assets of governmental activities..... | | <u>\$ (3,107,051)</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|--|---|-----------------------------|---------------------------------------|-----------------------------|---|
| | Water | Sewer | Light (as of December 31, 2011) | Total | |
| ASSETS | | | | | |
| CURRENT: | | | | | |
| Cash and cash equivalents..... | \$ 3,618,815 | \$ 4,588,115 | \$ 3,742,652 | \$ 11,949,582 | \$ 7,337,033 |
| Receivables, net of allowance for uncollectibles: | | | | | |
| Tax liens..... | 40,639 | 58,753 | - | 99,392 | - |
| User fees..... | 1,287,426 | 1,806,017 | 1,527,675 | 4,621,118 | - |
| Intergovernmental..... | - | 61,132 | - | 61,132 | - |
| Inventory..... | 125,984 | 11,045 | 285,946 | 422,975 | - |
| Prepaid expenses..... | - | - | 23,284 | 23,284 | - |
| Purchased power advanced deposits..... | - | - | 1,652,068 | 1,652,068 | - |
| Total current assets..... | <u>5,072,864</u> | <u>6,525,062</u> | <u>7,231,625</u> | <u>18,829,551</u> | <u>7,337,033</u> |
| NONCURRENT: | | | | | |
| Restricted cash and cash equivalents..... | - | - | 1,840,872 | 1,840,872 | - |
| Capital assets, non depreciable..... | 3,138 | - | 1,752,034 | 1,755,172 | - |
| Capital assets, depreciable..... | 10,716,601 | 19,714,453 | 7,457,395 | 37,888,449 | - |
| Total noncurrent assets..... | <u>10,719,739</u> | <u>19,714,453</u> | <u>11,050,301</u> | <u>41,484,493</u> | <u>-</u> |
| TOTAL ASSETS..... | <u><u>15,792,603</u></u> | <u><u>26,239,515</u></u> | <u><u>18,281,926</u></u> | <u><u>60,314,044</u></u> | <u><u>7,337,033</u></u> |
| LIABILITIES | | | | | |
| CURRENT: | | | | | |
| Warrants payable..... | 149,427 | 72,754 | 1,506,425 | 1,728,606 | 247 |
| Accrued liabilities..... | - | - | 13,354 | 13,354 | - |
| Health claims payable..... | - | - | - | - | 1,600,000 |
| Accrued interest..... | - | 66,817 | - | 66,817 | - |
| Compensated absences..... | 2,448 | 3,199 | 9,949 | 15,596 | - |
| Bonds payable..... | 521,358 | 614,792 | - | 1,136,150 | - |
| Total current liabilities..... | <u>673,233</u> | <u>757,562</u> | <u>1,529,728</u> | <u>2,960,523</u> | <u>1,600,247</u> |
| NONCURRENT: | | | | | |
| Compensated absences..... | 46,511 | 60,779 | 189,031 | 296,321 | - |
| Other liabilities..... | - | - | 1,126,443 | 1,126,443 | - |
| Other postemployment benefits..... | 919,924 | 603,840 | 2,205,195 | 3,728,959 | - |
| Bonds payable..... | 3,328,377 | 10,444,225 | - | 13,772,602 | - |
| Total noncurrent liabilities..... | <u>4,294,812</u> | <u>11,108,844</u> | <u>3,520,669</u> | <u>18,924,325</u> | <u>-</u> |
| TOTAL LIABILITIES..... | <u><u>4,968,045</u></u> | <u><u>11,866,406</u></u> | <u><u>5,050,397</u></u> | <u><u>21,884,848</u></u> | <u><u>1,600,247</u></u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt..... | 6,870,004 | 10,911,708 | 9,209,429 | 26,991,141 | - |
| Unrestricted..... | 3,954,554 | 3,461,401 | 4,022,100 | 11,438,055 | 5,736,786 |
| TOTAL NET ASSETS..... | <u><u>\$ 10,824,558</u></u> | <u><u>\$ 14,373,109</u></u> | <u><u>\$ 13,231,529</u></u> | <u><u>\$ 38,429,196</u></u> | <u><u>\$ 5,736,786</u></u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|--|---|----------------------|---------------------------------------|----------------------|---|
| | Water | Sewer | Light (as of December 31, 2011) | Total | |
| OPERATING REVENUES: | | | | | |
| Employee contributions | \$ - | \$ - | \$ - | \$ - | \$ 3,159,443 |
| Employer contributions | - | - | - | - | 9,933,039 |
| Charges for services | 5,260,073 | 7,304,226 | 20,520,776 | 33,085,075 | - |
| Other | 450 | - | 488,852 | 489,302 | 353,474 |
| TOTAL OPERATING REVENUES | 5,260,523 | 7,304,226 | 21,009,628 | 33,574,377 | 13,445,956 |
| OPERATING EXPENSES: | | | | | |
| Cost of services and administration | 4,141,515 | 6,066,598 | 18,621,677 | 28,829,790 | - |
| Depreciation | 253,399 | 325,418 | 1,219,751 | 1,798,568 | - |
| Employee benefits | - | - | - | - | 11,795,228 |
| TOTAL OPERATING EXPENSES | 4,394,914 | 6,392,016 | 19,841,428 | 30,628,358 | 11,795,228 |
| OPERATING INCOME (LOSS) | 865,609 | 912,210 | 1,168,200 | 2,946,019 | 1,650,728 |
| NONOPERATING REVENUES (EXPENSES): | | | | | |
| Investment income | 7,320 | 5,894 | 4,855 | 18,069 | 18,447 |
| Interest expense | - | (234,446) | (1,728) | (236,174) | - |
| Intergovernmental | - | 457,695 | - | 457,695 | - |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET | 7,320 | 229,143 | 3,127 | 239,590 | 18,447 |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | 872,929 | 1,141,353 | 1,171,327 | 3,185,609 | 1,669,175 |
| TRANSFERS: | | | | | |
| Transfers out | (157,853) | (125,000) | (717,000) | (999,853) | - |
| CHANGE IN NET ASSETS | 715,076 | 1,016,353 | 454,327 | 2,185,756 | 1,669,175 |
| NET ASSETS AT BEGINNING OF YEAR | 10,109,482 | 13,356,756 | 12,777,202 | 36,243,440 | 4,067,611 |
| NET ASSETS AT END OF YEAR | \$ 10,824,558 | \$ 14,373,109 | \$ 13,231,529 | \$ 38,429,196 | \$ 5,736,786 |

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2012

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|---|---|---------------------|---------------------------------------|----------------------|---|
| | Water | Sewer | Light (as of December 31, 2011) | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Receipts from customers and users..... | \$ 5,346,481 | \$ 7,222,830 | \$ 21,511,003 | \$ 34,080,314 | \$ - |
| Receipts from interfund services provided..... | - | - | - | - | 13,445,956 |
| Payments to vendors..... | (2,638,358) | (5,541,007) | (14,127,766) | (22,307,131) | - |
| Payments to employees..... | (1,180,038) | (331,108) | (3,916,863) | (5,428,009) | - |
| Payments for interfund services used..... | - | - | - | - | (12,081,857) |
| NET CASH FROM OPERATING ACTIVITIES..... | 1,528,085 | 1,350,715 | 3,466,374 | 6,345,174 | 1,364,099 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Transfers out..... | (157,853) | (125,000) | (717,000) | (999,853) | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Proceeds from the issuance of bonds and notes..... | 1,000,000 | 2,379,504 | - | 3,379,504 | - |
| Acquisition and construction of capital assets..... | (1,132,441) | (2,111,990) | (1,611,500) | (4,855,931) | - |
| Principal payments on bonds and notes..... | (421,356) | (496,914) | (60,000) | (978,270) | - |
| Interest expense..... | - | (237,382) | (3,561) | (240,943) | - |
| Intergovernmental..... | - | 457,695 | - | 457,695 | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (553,797) | (9,087) | (1,675,061) | (2,237,945) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Rate stabilization reserve..... | - | - | 3,918 | 3,918 | - |
| Investment income..... | 7,320 | 5,894 | 4,855 | 18,069 | 18,447 |
| NET CASH FROM INVESTING ACTIVITIES..... | 7,320 | 5,894 | 8,773 | 21,987 | 18,447 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 823,755 | 1,222,522 | 1,083,086 | 3,129,363 | 1,382,546 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 2,795,060 | 3,365,593 | 4,500,438 | 10,661,091 | 5,954,487 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 3,618,815 | \$ 4,588,115 | \$ 5,583,524 | \$ 13,790,454 | \$ 7,337,033 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES: | | | | | |
| Operating income (loss)..... | \$ 865,609 | \$ 912,210 | \$ 1,168,200 | \$ 2,946,019 | \$ 1,650,728 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | |
| Depreciation..... | 253,399 | 325,418 | 1,219,751 | 1,798,568 | - |
| Changes in assets and liabilities: | | | | | |
| Tax liens..... | (9,545) | 1,342 | - | (8,203) | - |
| User fees..... | 95,503 | (82,738) | 536,635 | 549,400 | - |
| Inventory..... | (6,103) | 334 | 42,263 | 36,494 | - |
| Other assets..... | - | - | (37,707) | (37,707) | 13,124 |
| Prepaid expenses..... | - | - | (374) | (374) | - |
| Purchased power advance deposits..... | - | - | (644) | (644) | - |
| Other postemployment benefits obligation..... | 220,977 | 170,677 | 692,032 | 1,083,686 | - |
| Warrants payable..... | 112,755 | 22,866 | (144,646) | (9,025) | 247 |
| Accrued liabilities..... | - | - | (1,432) | (1,432) | - |
| Customer deposits..... | - | - | 2,447 | 2,447 | - |
| Health claims payable..... | - | - | - | - | (300,000) |
| Accrued compensated absences..... | (4,510) | 606 | (10,151) | (14,055) | - |
| Total adjustments..... | 662,476 | 438,505 | 2,298,174 | 3,399,155 | (286,629) |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 1,528,085 | \$ 1,350,715 | \$ 3,466,374 | \$ 6,345,174 | \$ 1,364,099 |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

| | Pension Trust Fund (as of December 31, 2011) | Other Postemployment Benefit Trust | Private Purpose Trust Funds | Agency Funds |
|---|---|---|-----------------------------------|-----------------|
| ASSETS | | | | |
| CURRENT: | | | | |
| Cash and cash equivalents..... | \$ 789,505 | \$ 1,394 | \$ 313,134 | \$ 212,385 |
| Investments..... | 60,978,661 | 1,315,306 | 478,784 | - |
| Due from general fund..... | 3,232,055 | - | - | - |
| Other assets..... | - | - | - | 100,963 |
| TOTAL ASSETS..... | 65,000,221 | 1,316,700 | 791,918 | 313,348 |
| LIABILITIES | | | | |
| Warrants payable..... | 58,136 | - | - | 1,255 |
| Liabilities due depositors..... | - | - | - | 211,130 |
| Deferred revenue..... | - | - | - | 100,963 |
| TOTAL LIABILITIES..... | 58,136 | - | - | 313,348 |
| NET ASSETS | | | | |
| Held in trust for retirement, OPEB benefits, and other purposes..... | \$ <u>64,942,085</u> | \$ <u>1,316,700</u> | \$ <u>791,918</u> | \$ <u>-</u> |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

| | Pension Trust Fund (as of December 31, 2011) | Other Postemployment Benefit Trust | Private Purpose Trust Funds |
|--|---|---|-----------------------------------|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employer..... | \$ 6,192,434 | \$ 105,000 | \$ - |
| Employee..... | 2,072,553 | - | - |
| Miscellaneous..... | - | - | 41,795 |
| Total contributions..... | 8,264,987 | 105,000 | 41,795 |
| Net investment income (loss): | | | |
| Net change in fair value of investments..... | (730,209) | (1,466) | - |
| Interest..... | 1,992,444 | - | 14,494 |
| Total investment income (loss)..... | 1,262,235 | (1,466) | 14,494 |
| Less: investment expense..... | (413,268) | - | - |
| Net investment income (loss)..... | 848,967 | (1,466) | 14,494 |
| Intergovernmental..... | 217,610 | - | - |
| Transfers from other systems..... | 218,673 | - | - |
| TOTAL ADDITIONS..... | 9,550,237 | 103,534 | 56,289 |
| DEDUCTIONS: | | | |
| Administration..... | 170,278 | - | - |
| Transfers to other systems..... | 355,456 | - | - |
| Retirement benefits and refunds..... | 9,389,151 | - | - |
| Educational scholarships..... | - | - | 57,482 |
| TOTAL DEDUCTIONS..... | 9,914,885 | - | 57,482 |
| CHANGE IN NET ASSETS..... | (364,648) | 103,534 | (1,193) |
| NET ASSETS AT BEGINNING OF YEAR..... | 65,306,733 | 1,213,166 | 793,111 |
| NET ASSETS AT END OF YEAR..... | \$ 64,942,085 | \$ 1,316,700 | \$ 791,918 |

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town of Belmont, Massachusetts (Town) is a municipal corporation that is governed by an elected three member Board of Selectmen. They in turn appoint a Town Administrator who has general supervision of and control over the Town's boards, commissions, officers and departments. The legislative body of the Town is the elected Town Meeting members which consist of 288 members elected for a three-year term in addition to some ex-officio members.

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

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

In the Fiduciary Funds:

- (1) The Belmont Contributory Retirement System (the System) was established to provide retirement benefits to Town employees and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Board of Selectmen and one members appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System issues a publicly available audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at Town Hall, 455 Concord Ave, Belmont, MA 02478.

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

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

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

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

Taxes and other items not identifiable as program revenues are reported as general revenues. For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences 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 fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

The *Wellington School Construction Fund* accounts for activity related to the construction of the new Wellington School.

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

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

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

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

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

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

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

The *light enterprise fund* is used to account for the Town's electric light department activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the self-insured employee health program.

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

The following fiduciary fund types are reported:

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

The *other postemployment benefit trust fund* is a new fund established under special legislation to accumulate resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The Town's educational scholarship trusts are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity by the Town.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 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 and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed during the year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

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

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

Motor Vehicle Excise

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. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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

Water and Sewer

User fees 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. Water and Sewer liens are processed every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

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

Departmental and Other

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

Intergovernmental

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

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

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase in the fund financial statements. Such inventories are capitalized in the government-wide financial statements. Inventories of the Light Fund are carried at average cost.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) 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> |
|------------------------------|---|
| Land improvements..... | 20 |
| Buildings..... | 40-50 |
| Machinery and equipment..... | 5-20 |
| Infrastructure..... | 15-100 |

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.

The fixed assets of the municipal light enterprise fund are capitalized upon purchase and depreciated at a rate of 3% of the cost of plant in service at the beginning of the calendar year, exclusive of land and land rights. The municipal light enterprise fund charges maintenance to expense when incurred. Replacements and betterments are charged to fixed assets.

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the

modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Permanent funds – expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds – nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town meeting is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by resolution authorized the Town Accountant to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

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

Sometimes the Town will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the Town’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

Investment income from proprietary funds, trust funds, and internal service funds is retained within the respective fund.

N. 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. Sick leave though accrued is expensed as incurred. There is no obligation to pay for sick time upon termination of employment.

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 maturity of the liability.

O. 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.

P. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$34,406,466 and the bank balance totaled \$36,922,072. Of the bank balance, \$2,005,235 was covered by Federal Depository Insurance, \$15,715,024 was covered by the Depositors Insurance Fund, \$4,979,275 was collateralized, \$4,800,673 was covered under the FDIC Transaction Guarantee Program, and \$9,421,865 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2011, the carrying amount of the Retirement System's deposits totaled \$260,695 and the bank balance totaled \$360,847. All of the bank balance was covered by Federal Depository Insurance.

Investments

Listed below are the investments of the Town as of June 30, 2012 and the Retirement System as of December 31, 2011.

Town's Investments:

| Investment Type | Fair Value | Maturity | | | Quality Rating |
|--|---------------|--------------|------------|------------|----------------|
| | | Under 1 Year | 1-5 Years | 6-10 Years | |
| <u>Debt Securities</u> | | | | | |
| U.S. Treasury Note..... | \$ 723,019 | \$ 500,129 | \$ 124,357 | \$ 98,533 | AAA |
| Corporate Bonds..... | 490,272 | 102,584 | 387,688 | - | A/AA/NR |
| Federal National Mortgage Association..... | 213,460 | - | 213,460 | - | AAA |
| Federal Home Loan Mortgage Corp..... | 108,108 | - | 108,108 | - | AAA |
| Total Debt Securities..... | 1,534,859 | \$ 602,713 | \$ 833,613 | \$ 98,533 | |
| <u>Other Investments</u> | | | | | |
| Equity Securities..... | 1,767,192 | | | | |
| Negotiable Certificates of Deposit..... | 4,585,586 | | | | |
| Mutual Funds..... | 1,101,576 | | | | |
| Money Market Mutual Funds..... | 1,340,176 | | | | |
| MMDT..... | 14,955,568 | | | | |
| Total Investments..... | \$ 25,284,957 | | | | |

Retirement System's Investments:

| Investment Type | Fair Value | Maturity | | Quality Rating |
|---|---------------|---------------|--------------|----------------|
| | | 1-5 Years | 6-10 Years | |
| <u>Debt Securities</u> | | | | |
| Scout Core Plus Bond Fund..... | \$ 11,823,976 | \$ 11,823,976 | \$ - | NR |
| Delaware Pooled Global Fixed Income Fund..... | 1,967,819 | - | 1,967,819 | AA |
| Total Debt Securities..... | 13,791,795 | \$ 11,823,976 | \$ 1,967,819 | |
| <u>Other Investments</u> | | | | |
| Equity Mutual Funds..... | 8,645,261 | | | |
| Equity Securities..... | 10,908,458 | | | |
| International Equity Mutual Funds..... | 5,991,195 | | | |
| PRIT Hedge Fund Account..... | 7,080,061 | | | |
| PRIT Alternative Fund..... | 6,210,151 | | | |
| Short Term Investment Fund..... | 528,810 | | | |
| PRIT Real Estate Fund..... | 6,952,957 | | | |
| PRIT Fund..... | 1,398,783 | | | |
| Total Investments..... | \$ 61,507,471 | | | |

* Duration of underlying holdings in Scout Core Mutual Fund is 4.5 years and Delaware Pooled Global Fixed Income Fund is 5.3 years.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Of the Town's investments in U.S. Treasury Notes, corporate bonds, asset backed securities, and equity securities, as detailed above, the Town has a custodial credit risk exposure of \$3,302,051 because the related securities are uninsured, unregistered and held by the counterparty.

The Town's investment policy states that before conducting any business with a brokerage house that the Town obtain a copy of their latest audited financial statement, proof of National Association of Security Dealers certification, and proof of credit worthiness, which the Town defines as at least five years in operation and minimum capital of \$10 million.

The Retirement System has custodial credit risk exposure of \$10,908,458 because the related equity securities are uninsured, unregistered and held by the counterparty.

The Retirement System limits its custodial credit risk by utilizing an institutional custodial bank, currently State Street Bank, to custody all separately held securities which are registered under a nominee name that is specific to the Retirement System. Assets held in commingled fund accounts are also held in a similar fashion, with individual fund securities held in the fund's name at their custodian bank. A small percentage of the Retirement System's assets (typically less than 5%) may be held from time to time in commingled cash equivalent vehicles where the assets are subject to counterparty risk.

Interest Rate Risk

The Town's investment policy states that safety of principal is the foremost objective, followed by liquidity and then yield. Investments shall be made to achieve the best rate of return, taking into account safety and liquidity constraints, as well as, legal requirements while not explicitly limiting the maturities of allowable investments.

The Retirement System's fixed income assets are held in professionally managed, institutional commingled funds. The Retirement System limits its effective exposure to interest rate risk by benchmarking its commingled fixed income investment accounts to an intermediate duration benchmark (LB Aggregate) with a duration of 4-5 years. Further, the Retirement System's current fixed income investments are diversified by sector (corporate, government, asset-backed, mortgage, non-US dollar) to provide additional protection in various interest rate environments.

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 9.69 years.

Credit Risk

The Town's investment policy seeks to lessen the credit risk associated with certain types of investments through diversification and prudent selection of investments in line with MGL CH 44 Sec. 55B.

The Retirement System has a policy that states no more than 20% of the fixed income assets may be invested in below investment grade securities (rated BBB by Standard & Poor's) and the average duration of the fixed income portfolio cannot be more than 20% higher than the market as measured by Lehman Aggregate Index.

Concentration of Credit Risk

The Town places a limit of 10% on the amount the Town may invest in any one issuer. The Town does not have more than 10% of its investments with any one issuer as of June 30, 2012.

For the Retirement System, no fixed income security, except issues of the U. S. Government, can comprise more than 5% of the Retirement Systems assets, measured at market; and no individual portfolio can hold more than 5% of its assets in securities of any single entity, except issues of the U. S. Government. Further, no equity security can comprise more than 5% of the equity portfolio measured at book value. The Retirement System does have investments in individual commingled mutual funds and trusts that represent more than 5% of the Retirement System's assets, but in each case these investments are in institutional commingled funds that are invested in diversified portfolios of between 50 and 200 individual securities.

Foreign Currency Risk

The Retirement System's exposure to foreign currency risk is attributable to its investments in individual commingled mutual funds and trusts that are invested in diversified (by country and security) portfolios on international stocks and bonds that are denominated in foreign currencies. The Retirement System's combined policy target allocation to all non-US securities is currently 20% of the Retirement System's total assets (12% international equities and 8% international bonds).

NOTE 3 – RECEIVABLES

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

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|--|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes..... | \$ 852,364 | \$ (2,652) | \$ 849,712 |
| Real estate tax deferrals..... | 629,351 | - | 629,351 |
| Tax liens..... | 830,858 | - | 830,858 |
| Motor vehicle and other excise taxes..... | 355,401 | (217,941) | 137,460 |
| Departmental and other..... | 767,353 | (208,208) | 559,145 |
| Intergovernmental..... | <u>1,493,726</u> | <u>-</u> | <u>1,493,726</u> |
| Total..... | <u>\$ 4,929,053</u> | <u>\$ (428,801)</u> | <u>\$ 4,500,252</u> |

At June 30, 2012, receivables for the enterprise funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---------------------------------|-------------------------|---------------------------------|-------------------------|
| <u>Receivables:</u> | | | |
| Water user fees..... | \$ 1,287,426 | \$ - | \$ 1,287,426 |
| Water enterprise tax liens..... | 40,639 | - | 40,639 |
| Sewer user fees..... | 1,806,017 | - | 1,806,017 |
| Sewer enterprise tax liens..... | 58,753 | - | 58,753 |
| Sewer intergovernmental..... | 61,132 | - | 61,132 |
| Light user fees..... | 1,527,675 | - | 1,527,675 |
| Total..... | <u>\$ 4,781,642</u> | <u>\$ -</u> | <u>\$ 4,781,642</u> |

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

| | General Fund | Nonmajor Governmental Funds | Total |
|---|-------------------------|-----------------------------------|-------------------------|
| <u>Receivable and other asset type:</u> | | | |
| Real estate, personal property and tax deferrals..... | \$ 2,717,449 | \$ - | \$ 2,717,449 |
| Tax liens..... | 830,858 | - | 830,858 |
| Motor vehicle and other excise..... | 137,460 | - | 137,460 |
| Intergovernmental..... | 662,000 | 827,850 | 1,489,850 |
| Departmental..... | 548,570 | 10,575 | 559,145 |
| Total..... | <u>\$ 4,896,337</u> | <u>\$ 838,425</u> | <u>\$ 5,734,762</u> |

NOTE 4 – 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..... | \$ 16,194,930 | \$ - | \$ - | \$ 16,194,930 |
| Construction in progress..... | 28,872,145 | 1,521,866 | (30,138,321) | 255,690 |
| Total capital assets not being depreciated..... | 45,067,075 | 1,521,866 | (30,138,321) | 16,450,620 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 3,528,981 | 84,704 | - | 3,613,685 |
| Buildings..... | 93,731,657 | 35,645,440 | - | 129,377,097 |
| Machinery and equipment..... | 11,924,498 | 407,258 | - | 12,331,756 |
| Vehicles..... | 4,275,217 | 115,710 | - | 4,390,927 |
| Infrastructure..... | 31,091,575 | 1,006,459 | - | 32,098,034 |
| Total capital assets being depreciated..... | 144,551,928 | 37,259,571 | - | 181,811,499 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (2,125,400) | (123,917) | - | (2,249,317) |
| Buildings..... | (37,245,198) | (1,999,668) | - | (39,244,866) |
| Machinery and equipment..... | (7,388,750) | (1,501,547) | - | (8,890,297) |
| Vehicles..... | (3,046,766) | (313,698) | - | (3,360,464) |
| Infrastructure..... | (8,039,177) | (546,233) | - | (8,585,410) |
| Total accumulated depreciation..... | (57,845,291) | (4,485,063) | - | (62,330,354) |
| Total capital assets being depreciated, net..... | 86,706,637 | 32,774,508 | - | 119,481,145 |
| Total governmental activities capital assets, net..... | \$ 131,773,712 | \$ 34,296,374 | \$ (30,138,321) | \$ 135,931,765 |

Business-Type Activities:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|-------------|----------------------|
| Water: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 3,138 | \$ - | \$ - | \$ 3,138 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 7,822 | - | - | 7,822 |
| Buildings..... | 487,823 | 31,211 | - | 519,034 |
| Machinery and equipment..... | 436,716 | 114,783 | - | 551,499 |
| Vehicles..... | 866,928 | 29,884 | - | 896,812 |
| Infrastructure..... | 27,377,692 | 956,563 | - | 28,334,255 |
| Total capital assets being depreciated..... | 29,176,981 | 1,132,441 | - | 30,309,422 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (7,822) | - | - | (7,822) |
| Buildings..... | (139,952) | (6,323) | - | (146,275) |
| Machinery and equipment..... | (346,017) | (37,661) | - | (383,678) |
| Vehicles..... | (554,814) | (58,006) | - | (612,820) |
| Infrastructure..... | (18,290,817) | (151,409) | - | (18,442,226) |
| Total accumulated depreciation..... | (19,339,422) | (253,399) | - | (19,592,821) |
| Total capital assets being depreciated, net..... | 9,837,559 | 879,042 | - | 10,716,601 |
| Total business-type activities capital assets, net..... | \$ 9,840,697 | \$ 879,042 | \$ - | \$ 10,719,739 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|----------------|-------------------|
| Sewer: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Construction in progress..... | \$ 1,319,451 | \$ - | \$ (1,319,451) | \$ - |
| <u>Capital assets being depreciated:</u> | | | | |
| Machinery and equipment..... | 944,659 | 6,250 | - | 950,909 |
| Vehicles..... | 387,367 | 136,818 | - | 524,185 |
| Infrastructure..... | 19,698,008 | 1,968,922 | - | 21,666,930 |
| Total capital assets being depreciated..... | 21,030,034 | 2,111,990 | - | 23,142,024 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Machinery and equipment..... | (652,835) | (110,904) | - | (763,739) |
| Infrastructure..... | (2,449,318) | (214,514) | - | (2,663,832) |
| Total accumulated depreciation..... | (3,102,153) | (325,418) | - | (3,427,571) |
| Total capital assets being depreciated, net..... | 17,927,881 | 1,786,572 | - | 19,714,453 |
| Total business-type activities capital assets, net..... | \$ 19,247,332 | \$ 1,786,572 | \$ (1,319,451) | \$ 19,714,453 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------|-----------|-------------------|
| Light: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 1,007,767 | \$ 744,267 | \$ - | \$ 1,752,034 |
| <u>Capital assets being depreciated:</u> | | | | |
| Distribution Plant..... | 16,637,915 | 641,948 | (289,742) | 16,990,121 |
| General Plant..... | 7,757,098 | 225,285 | - | 7,982,383 |
| Total capital assets being depreciated..... | 24,395,013 | 867,233 | (289,742) | 24,972,504 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Distribution Plant..... | (12,622,540) | (831,896) | 289,742 | (13,164,694) |
| General Plant..... | (3,962,560) | (387,855) | - | (4,350,415) |
| Total accumulated depreciation..... | (16,585,100) | (1,219,751) | 289,742 | (17,515,109) |
| Total capital assets being depreciated, net..... | 7,809,913 | (352,518) | - | 7,457,395 |
| Total business-type activities capital assets, net..... | \$ 8,817,680 | \$ 391,749 | \$ - | \$ 9,209,429 |

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

Governmental Activities:

| | | |
|-----------------------------|----|----------------|
| General government..... | \$ | 641,946 |
| Public safety..... | | 692,797 |
| Education..... | | 2,375,957 |
| Public works..... | | 642,167 |
| Human services..... | | 23,854 |
| Culture and recreation..... | | <u>108,342</u> |

Total depreciation expense - governmental activities..... \$ 4,485,063

Business-Type Activities:

| | | |
|------------|----|------------------|
| Water..... | \$ | 253,399 |
| Sewer..... | | 325,418 |
| Light..... | | <u>1,219,751</u> |

Total depreciation expense - business-type activities..... \$ 1,798,568

NOTE 5 – CAPITAL LEASES

During fiscal year 2007, the Town entered into a lease agreement to finance the acquisition of energy conservation equipment. During fiscal year 2012, the Town entered into a lease agreement to finance the acquisition of an ambulance and other public safety related equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The following identifies the asset value acquired through the capital lease agreement:

| | | |
|-------------------------------------|----|------------------------------------|
| | | <u>Governmental Activities</u> |
| <u>Asset:</u> | | |
| Machinery and equipment..... | \$ | 2,141,096 |
| Less: accumulated depreciation..... | | <u>(931,150)</u> |
| Total..... | \$ | <u><u>1,209,946</u></u> |

The future minimum lease obligation and the net present value of the minimum lease payment at June 30, 2012, follows:

| <u>Fiscal Years Ending June 30</u> | <u>Governmental Activities</u> |
|--|------------------------------------|
| 2013..... | \$ 317,996 |
| 2014..... | 317,997 |
| 2015..... | 317,997 |
| 2016 - 2017 | <u>417,066</u> |
| Total minimum lease payments..... | 1,371,056 |
| Less: amounts representing interest..... | <u>(103,116)</u> |
| Present value of minimum lease payments..... | \$ <u><u>1,267,940</u></u> |

NOTE 6 – INTERFUND TRANSFERS

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

| <u>Transfers Out:</u> | <u>Transfers In:</u> | | |
|---------------------------------|--------------------------------|---|--------------------------------|
| | <u>General Fund</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
| General Fund..... | \$ | \$ 2,372,236 | \$ 2,372,236 |
| Nonmajor Governmental Funds.... | 326,639 | 202,405 | 529,044 |
| Water Enterprise Fund..... | 157,853 | - | 157,853 |
| Sewer Enterprise Fund..... | 125,000 | - | 125,000 |
| Light Enterprise Fund..... | <u>717,000</u> | <u>-</u> | <u>717,000</u> |
| Total..... | \$ <u><u>1,326,492</u></u> | \$ <u><u>2,574,641</u></u> | \$ <u><u>3,901,133</u></u> |

Transfers represent amounts voted to fund the fiscal year 2012 operating budget and also amounts transferred to fund various capital projects.

NOTE 7 – SHORT-TERM FINANCING

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

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

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

The Town did not have any short-term debt activity in fiscal year 2012.

On April 26, 2012, the Town of Belmont secured an Electric Bond Anticipation Note on behalf of the Electric Light Enterprise Fund. The note carries a 1.5% interest rate and a due date of April 25, 2013. This note will be reported on the Electric Light financial statements as of December 31, 2012.

NOTE 8 - LONG-TERM DEBT

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

During the current year, in order to take advantage of favorable interest rates the Town issued \$9,956,000 of general obligation refunding bonds during fiscal 2012. \$10,950,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunding bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. The Town has decreased its aggregate debt service payments by \$1,396,813 and will experience an economic gain of \$1,276,051. At June 30, 2012, \$10,950,000 of Governmental Fund bonds outstanding from the advance refunding are considered defeased.

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements follow.

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2011 | Issued | Redeemed | Outstanding at June 30, 2012 |
|----------------------------------|--------------------|----------------------|-------------------|------------------------------|--------------|---------------|------------------------------|
| Septic Loan 97-2002..... | 2020 | \$ 60,160 | 0.00 | \$ 28,435 | \$ - | \$ 3,191 | \$ 25,244 |
| Town Hall Renovation..... | 2023 | 11,950,000 | 3.00-4.75 | 7,150,000 | - | 6,550,000 | 600,000 |
| Outdoor Athletic Facility..... | 2013 | 2,200,000 | 3.00-3.75 | 440,000 | - | 220,000 | 220,000 |
| Fire Station Construction..... | 2024 | 8,500,000 | 3.00-5.00 | 5,525,000 | - | 4,675,000 | 850,000 |
| Fire Land Acquisition..... | 2024 | 1,500,000 | 3.00-5.00 | 975,000 | - | 825,000 | 150,000 |
| Communications Tower..... | 2014 | 126,000 | 3.00-5.00 | 30,000 | - | 10,000 | 20,000 |
| Fire Station Construction..... | 2026 | 2,030,000 | 3.00-5.00 | 1,505,000 | - | 105,000 | 1,400,000 |
| Land Acquisition..... | 2025 | 780,000 | 4.00-6.00 | 560,000 | - | 40,000 | 520,000 |
| Senior Center..... | 2026 | 3,310,000 | 5.00 | 2,920,000 | - | 195,000 | 2,725,000 |
| High School HVAC..... | 2014 | 600,000 | 3.50 | 360,000 | - | 120,000 | 240,000 |
| FY10 Debt Refunding..... | 2015 | 5,455,000 | 2.70 | 4,330,000 | - | 1,055,000 | 3,275,000 |
| Wellington Elementary School.... | 2035 | 26,700,000 | 2.00-3.00 | 26,015,000 | - | 705,000 | 25,310,000 |
| FY12 Debt Refunding..... | 2024 | 9,956,000 | 3.00-5.00 | - | 9,956,000 | - | 9,956,000 |
| Total..... | | | | \$ 49,838,435 | \$ 9,956,000 | \$ 14,503,191 | \$ 45,291,244 |

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

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2013..... | \$ 3,593,191 | \$ 2,305,297 | \$ 5,898,488 |
| 2014..... | 3,364,191 | 1,945,977 | 5,310,168 |
| 2015..... | 3,203,191 | 1,563,411 | 4,766,602 |
| 2016..... | 2,113,134 | 1,401,417 | 3,514,551 |
| 2017..... | 2,138,134 | 1,306,704 | 3,444,838 |
| 2018..... | 2,163,134 | 1,213,074 | 3,376,208 |
| 2019..... | 2,198,134 | 1,129,630 | 3,327,764 |
| 2020..... | 2,223,135 | 1,047,707 | 3,270,842 |
| 2021..... | 2,240,000 | 955,439 | 3,195,439 |
| 2022..... | 2,285,000 | 866,186 | 3,151,186 |
| 2023..... | 2,325,000 | 775,326 | 3,100,326 |
| 2024..... | 1,840,000 | 685,701 | 2,525,701 |
| 2025..... | 1,435,000 | 618,851 | 2,053,851 |
| 2026..... | 1,435,000 | 561,275 | 1,996,275 |
| 2027..... | 1,190,000 | 509,400 | 1,699,400 |
| 2028..... | 1,240,000 | 461,800 | 1,701,800 |
| 2029..... | 1,290,000 | 412,200 | 1,702,200 |
| 2030..... | 1,345,000 | 360,600 | 1,705,600 |
| 2031..... | 1,400,000 | 306,800 | 1,706,800 |
| 2032..... | 1,465,000 | 250,800 | 1,715,800 |
| 2033..... | 1,530,000 | 192,200 | 1,722,200 |
| 2034..... | 1,600,000 | 131,000 | 1,731,000 |
| 2035..... | 1,675,000 | 67,000 | 1,742,000 |
| | <u>\$ 45,291,244</u> | <u>\$ 19,067,795</u> | <u>\$ 64,359,039</u> |

Bonds and Notes Payable Schedule – Enterprise Funds

| Project | Maturities Through | Original Loan Amount | Interest Rate (%) | Outstanding at June 30, 2011 | Issued | Redeemed | Outstanding at June 30, 2012 |
|-----------------------------|--------------------|----------------------|-------------------|------------------------------|---------------------|-------------------|------------------------------|
| MWRA Water Main..... | 2014 | \$ 650,000 | 0.00 | \$ 195,000 | \$ - | \$ 65,000 | \$ 130,000 |
| MWRA Water..... | 2018 | 714,000 | 0.00 | 499,800 | - | 71,400 | 428,400 |
| MWRA Water..... | 2019 | 872,000 | 0.00 | 697,600 | - | 87,200 | 610,400 |
| MWRA Water..... | 2021 | 1,977,570 | 0.00 | 1,878,691 | - | 197,756 | 1,680,935 |
| MWRA Water..... | 2022 | 1,000,000 | 0.00 | - | 1,000,000 | - | 1,000,000 |
| MWRA Sewer..... | 2014 | 3,754,230 | 0.00 | 225,258 | - | 75,086 | 150,172 |
| Sewer & Surface Drains..... | 2027 | 2,479,000 | 4.10-5.00 | 1,965,000 | - | 125,000 | 1,840,000 |
| MWPAT Sewer..... | 2031 | 7,226,667 | 0.02 | 7,226,667 | - | 296,828 | 6,929,839 |
| MWPAT Sewer..... | 2017 | 559,406 | 0.00 | - | 559,406 | - | 559,406 |
| MWPAT Sewer..... | 2033 | 1,579,600 | 2.00 | - | 1,579,600 | - | 1,579,600 |
| Light Bond..... | 2012 | 240,000 | 4.20-4.60 | 60,000 | - | 60,000 | - |
| Total..... | | | | <u>\$ 12,748,016</u> | <u>\$ 3,139,006</u> | <u>\$ 978,270</u> | <u>\$ 14,908,752</u> |

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

Water Enterprise

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|-----------------|---------------------|
| 2013..... | \$ 521,358 | \$ - | \$ 521,358 |
| 2014..... | 521,356 | - | 521,356 |
| 2015..... | 456,358 | - | 456,358 |
| 2016..... | 456,356 | - | 456,356 |
| 2017..... | 456,358 | - | 456,358 |
| 2018..... | 456,356 | - | 456,356 |
| 2019..... | 384,958 | - | 384,958 |
| 2020..... | 297,756 | - | 297,756 |
| 2021..... | 198,879 | - | 198,879 |
| 2022..... | 100,000 | - | 100,000 |
| Total..... | \$ 3,849,735 | \$ - | \$ 3,849,735 |

Sewer Enterprise

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2013..... | \$ 614,792 | \$ 233,216 | \$ 848,008 |
| 2014..... | 684,805 | 234,292 | 919,097 |
| 2015..... | 617,349 | 221,603 | 838,952 |
| 2016..... | 625,136 | 208,760 | 833,896 |
| 2017..... | 633,083 | 194,665 | 827,748 |
| 2018..... | 529,309 | 180,409 | 709,718 |
| 2019..... | 537,583 | 167,083 | 704,666 |
| 2020..... | 546,028 | 153,624 | 699,652 |
| 2021..... | 554,645 | 139,961 | 694,606 |
| 2022..... | 563,438 | 126,029 | 689,467 |
| 2023..... | 572,411 | 111,859 | 684,270 |
| 2024..... | 581,568 | 97,505 | 679,073 |
| 2025..... | 585,914 | 82,968 | 668,882 |
| 2026..... | 595,450 | 68,454 | 663,904 |
| 2027..... | 585,182 | 53,748 | 638,930 |
| 2028..... | 495,112 | 39,695 | 534,807 |
| 2029..... | 505,248 | 29,692 | 534,940 |
| 2030..... | 515,589 | 19,484 | 535,073 |
| 2031..... | 526,144 | 9,066 | 535,210 |
| 2032..... | 94,093 | 2,863 | 96,956 |
| 2033..... | 96,138 | 961 | 97,099 |
| Totals..... | \$ 11,059,017 | \$ 2,375,937 | \$ 13,434,954 |

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2012, approximately \$3.3 million of such assistance was received and approximately \$770,000 will be received in future fiscal years. Of this amount, approximately \$103,000 represents reimbursement of long-term interest costs, and approximately \$662,000 represents reimbursement of approved construction costs. Accordingly, a \$662,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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 |
|---|----------------------|
| Wellington school..... | \$ 2,868,181 |
| Fire station..... | 115,398 |
| Water..... | 6,127,000 |
| Sewer | 2,300,000 |
| Sewer surface drain..... | 1,842,270 |
| Municipal light plant construction..... | <u>53,700,000</u> |
| Total..... | <u>\$ 66,952,849</u> |

Changes in Long-Term Liabilities

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

| | Balance June 30, 2011 | Additions | Reductions | Balance June 30, 2012 | Current Portion |
|--|-----------------------------|----------------------|------------------------|-----------------------------|---------------------|
| Governmental Activities: | | | | | |
| Long-Term Bonds..... | \$ 49,838,435 | \$ 9,956,000 | \$ (14,503,191) | \$ 45,291,244 | \$ 3,593,191 |
| Other Postemployment Benefits..... | 30,710,546 | 17,186,609 | (7,650,285) | 40,246,870 | - |
| Landfill Closure..... | 3,704,000 | 103,500 | - | 3,807,500 | - |
| Compensated Absences..... | 1,468,046 | - | (214,557) | 1,253,489 | 62,674 |
| Unamortized Premium on Bonds ... | 716,392 | 1,591,941 | (129,647) | 2,178,686 | 129,647 |
| Capital Leases..... | <u>985,637</u> | <u>448,096</u> | <u>(165,793)</u> | <u>1,267,940</u> | <u>279,009</u> |
| Total governmental activity long-term liabilities..... | <u>\$ 87,423,056</u> | <u>\$ 29,286,146</u> | <u>\$ (22,663,473)</u> | <u>\$ 94,045,729</u> | <u>\$ 4,064,521</u> |
| Business-Type Activities: | | | | | |
| Long-Term Bonds..... | \$ 12,748,016 | \$ 3,139,006 | \$ (978,270) | \$ 14,908,752 | \$ 1,136,150 |
| Other Postemployment Benefits..... | 2,645,273 | 1,339,185 | (255,499) | 3,728,959 | - |
| Compensated Absences..... | <u>325,972</u> | <u>190,461</u> | <u>(204,516)</u> | <u>311,917</u> | <u>15,596</u> |
| Total business type activity long-term liabilities..... | <u>\$ 15,719,261</u> | <u>\$ 4,668,652</u> | <u>\$ (1,438,285)</u> | <u>\$ 18,949,628</u> | <u>\$ 1,151,746</u> |

The long-term liabilities will be liquidated in the future by the general fund and enterprise funds.

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as part of its fiscal year 2011 reporting. Implementation of GASB 54 was required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

At year end the balance of the General Stabilization Fund is \$6,749 and is reported as unassigned fund balance within the General Fund; the balance of the Ash Landfill Stabilization Fund is \$4,190,192 and the balance of the SPED Stabilization Fund is \$249,920, both of these are reported as committed fund balance within the General Fund.

GASB 54 provides for two major types of fund balances, which are Nonspendable and Spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as Nonspendable.

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

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

The Town has classified its fund balances with the following hierarchy.

| | GOVERNMENTAL FUNDS | | | |
|---|----------------------|--------------------------------|-----------------------------|--------------------------|
| | General | Wellington School Construction | Nonmajor Governmental Funds | Total Governmental Funds |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Permanent fund principal..... | \$ - | \$ - | 2,083,618 | \$ 2,083,618 |
| Restricted for: | | | | |
| Wellington school construction..... | - | 846,416 | - | 846,416 |
| Nonmajor governmental funds..... | - | - | 10,723,473 | 10,723,473 |
| Committed to: | | | | |
| Ash Landfill Stabilization Fund..... | 4,190,192 | - | - | 4,190,192 |
| SPED Stabilization Fund..... | 249,920 | - | - | 249,920 |
| Facilities Director Capital..... | 150,000 | - | - | 150,000 |
| Assigned to: | | | | |
| General government..... | 113,663 | - | - | 113,663 |
| Public safety..... | 93,105 | - | - | 93,105 |
| Education..... | 234,080 | - | - | 234,080 |
| Public works..... | 289,779 | - | - | 289,779 |
| Human services..... | 3,115 | - | - | 3,115 |
| Culture and recreation..... | 16,505 | - | - | 16,505 |
| Free cash used for fiscal 2013 appropriations..... | 2,000,000 | - | - | 2,000,000 |
| Free cash used to offset fiscal 2013 property tax debt exclusion..... | 51,783 | - | - | 51,783 |
| Free cash used for fiscal 2013 capital purchases..... | 122,000 | - | - | 122,000 |
| Unassigned to: | | | | |
| Kendall School Fire..... | 3,042,955 | - | - | 3,042,955 |
| Other unassigned..... | 7,089,269 | - | - | 7,089,269 |
| TOTAL FUND BALANCES..... | \$ 17,646,366 | \$ 846,416 | \$ 12,807,091 | \$ 31,299,873 |

NOTE 10 – LANDFILL CLOSURE

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$3.8 million as the estimate of the landfill closure liability at June 30, 2012. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Town meeting has voted a special purpose stabilization fund for this liability, which had a balance of \$4.2 million at fiscal year end.

NOTE 11 – RISK FINANCING

The Town is self-insured for its health insurance activities. The health insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

Health Insurance

The Town estimates Incurred But Not Reported (IBNR) claims based on an approximate two month claims paid average. The Town purchases individual stop loss insurance for claims in excess of the \$100,000 coverage provided by the Town. At June 30, 2012, the amount of the liability for health insurance claims totaled \$1,600,000.

Changes in the reported liability since July 1, 2010, are as follows:

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Fiscal Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2012..... | \$ 1,900,000 | \$ 11,495,228 | \$ (11,795,228) | \$ 1,600,000 |
| Fiscal Year 2011..... | 1,900,000 | 12,219,966 | (12,219,966) | 1,900,000 |

Insurance

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.

Workers' Compensation

The Town participates in a premium based workers' compensation insurance plan for its employees, except for police officers and firefighters for which the Town is self-insured. The Town's liability related to incurred but not reported claims for police officers and/or firefighters workers compensation is not material at June 30, 2012, and is therefore not reported.

General Liability

The Town is self-insured for its general liability insurance. MGL Chapter 258 limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract.

NOTE 12 - PENSION PLAN

Plan Description - The Town contributes to the Belmont Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Belmont Contributory Retirement Board. All employees working twenty five or more hours a week are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$8,560,637 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments

granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Belmont Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC, as well as, an audited financial report. Both of these reports may be obtained by contacting the System located at Town Hall, 455 Concord Ave., Belmont, Massachusetts 02478.

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

| | |
|--|-------------------|
| | <u>2011</u> |
| Active members..... | 444 |
| Inactive members..... | 134 |
| Disabled members..... | 46 |
| Retirees and beneficiaries currently receiving benefits..... | <u>314</u> |
| Total..... | <u><u>938</u></u> |

Funding Policy - 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 active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 98%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$6,062,000, \$5,525,000, and \$5,283,000, respectively, which equaled its required contribution for each fiscal year. The required contribution was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases of 4.75% - 7% per year for non-public safety employees and 5.25% - 8% per year for fire and police employees; and annual cost of living adjustments of 3%. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2011, was 16 years.

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/2010 | \$ 63,499,612 | \$ 123,684,550 | \$ 60,184,938 | 51.3% | \$ 180,889,933 | 33.3% |
| 1/1/2008 | 61,969,418 | 112,124,213 | 50,154,795 | 55.3% | 181,335,100 | 27.7% |
| 1/1/2006 | 53,736,253 | 101,659,952 | 47,923,699 | 52.9% | 164,549,300 | 29.1% |
| 1/1/2004 | 53,364,538 | 94,947,822 | 41,583,284 | 56.2% | 146,655,300 | 28.4% |
| 1/1/2002 | 52,838,407 | 87,176,074 | 34,337,667 | 60.6% | 131,319,000 | 26.1% |

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The Town is responsible for approximately 98.65% of the unfunded liability.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Retired plan members and beneficiaries currently receiving benefits are required to contribute 20% of the costs of benefits for the HMO and 50% of cost of benefits for the PPO plans if they are not participating in the Medicare Plan. Medicare eligible retirees and their spouses contribute 50% of the cost of the Medicare Enhance Supplement plan and the First Seniority. For fiscal year 2012, the Town contributed \$7.9 million to the plan.

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

| | |
|---|-----------------------------|
| Annual required contribution..... | \$ 18,970,005 |
| Interest on net OPEB obligation..... | 1,627,530 |
| Adjustment to annual required contribution..... | <u>(2,071,741)</u> |
| Annual OPEB cost (expense)..... | 18,525,794 |
| Contributions made..... | <u>(7,905,784)</u> |
| Increase in net OPEB obligation..... | 10,620,010 |
| Net OPEB obligation - beginning of year..... | <u>33,355,819</u> |
| Net OPEB obligation - end of year..... | <u><u>\$ 43,975,829</u></u> |

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

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|---|----------------------------|
| 6/30/2012 | \$ 18,525,794 | 43% | \$ 43,975,829 |
| 6/30/2011 | 17,856,626 | 41% | 33,355,819 |
| 6/30/2010 | 16,632,877 | 42% | 22,886,931 |

Funded Status and Funding Progress – As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$185 million, of which was the Town has funded approximately \$1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$39.8 million, and the ratio of the UAAL to the covered payroll was 462%.

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

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

In the July 1, 2010, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10% initially, graded to 5% over 5 years. The UAAL is being amortized using level dollar method over the maximum acceptable period of 30 years. The remaining amortization period at June 30, 2012 is 26 years.

NOTE 14 - COMMITMENTS

The Town has entered into, or is planning to enter into contracts totaling approximately \$66.9 million related to water and sewer infrastructure upgrades, for sewer surface drain projects, construction of a new municipal light plant, and for construction of the new Wellington School.

NOTE 15 - CONTINGENCIES

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

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

NOTE 16 – FUTURE IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | |
|---|---|---------------------|---------------------|
| | Amounts Carried forward From Prior Year | Original Budget | Final Budget |
| REVENUES: | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 69,101,766 | \$ 68,986,004 |
| Tax liens..... | - | - | - |
| Motor vehicle and other excise taxes..... | - | 2,575,000 | 2,600,381 |
| Charges for services..... | - | 1,660,739 | 1,489,311 |
| Penalties and interest on taxes..... | - | 160,000 | 180,000 |
| Licenses and permits..... | - | 516,000 | 700,000 |
| Fines and forfeitures..... | - | 165,000 | 160,975 |
| Intergovernmental..... | - | 7,793,452 | 7,793,452 |
| Investment income..... | - | 325,000 | 100,000 |
| TOTAL REVENUES..... | - | 82,296,957 | 82,010,123 |
| EXPENDITURES: | | | |
| Current: | | | |
| General government..... | 2,500 | 3,781,511 | 3,701,432 |
| Public safety..... | 1,969 | 11,561,580 | 11,673,957 |
| Education..... | 51,982 | 42,515,884 | 42,562,677 |
| Public works..... | 31,558 | 8,321,312 | 8,396,750 |
| Human services..... | - | 760,729 | 800,016 |
| Culture and recreation..... | 1,470 | 2,556,664 | 2,512,711 |
| Pension benefits..... | - | 5,070,588 | 5,070,588 |
| Employee benefits..... | 55,000 | 1,948,210 | 1,959,703 |
| State and county charges..... | - | 1,491,775 | 1,496,775 |
| Debt service: | | | |
| Principal..... | - | 3,553,191 | 3,553,191 |
| Interest..... | - | 2,023,331 | 2,023,331 |
| TOTAL EXPENDITURES..... | 144,479 | 83,584,775 | 83,751,131 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | (144,479) | (1,287,818) | (1,741,008) |
| OTHER FINANCING SOURCES (USES): | | | |
| Premium from issuance of bonds..... | - | - | - |
| Transfers in..... | - | 1,159,873 | 1,159,873 |
| Transfers out..... | - | (2,356,232) | (2,606,232) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | (1,196,359) | (1,446,359) |
| NET CHANGE IN FUND BALANCE..... | (144,479) | (2,484,177) | (3,187,367) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 8,508,485 | 8,508,485 |
| BUDGETARY FUND BALANCE, End of year..... | \$ (144,479) | \$ 6,024,308 | \$ 5,321,118 |

See notes to required supplementary information.

| | Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance To Final Budget |
|----|--------------------------------|--|-----------------------------|
| \$ | 69,282,370 | \$ - | \$ 296,366 |
| | 77,135 | - | 77,135 |
| | 2,832,809 | - | 232,428 |
| | 1,938,327 | - | 449,016 |
| | 188,785 | - | 8,785 |
| | 1,071,045 | - | 371,045 |
| | 305,549 | - | 144,574 |
| | 8,092,982 | - | 299,530 |
| | 153,150 | - | 53,150 |
| | <u>83,942,152</u> | <u>-</u> | <u>1,932,029</u> |
| | 3,177,601 | 113,663 | 410,168 |
| | 11,303,132 | 93,105 | 277,720 |
| | 42,285,662 | 234,080 | 42,935 |
| | 7,361,360 | 289,779 | 745,611 |
| | 771,171 | 3,115 | 25,730 |
| | 2,424,230 | 16,505 | 71,976 |
| | 5,051,044 | - | 19,544 |
| | 1,677,162 | - | 282,541 |
| | 1,506,670 | - | (9,895) |
| | 3,553,191 | - | - |
| | <u>1,863,331</u> | <u>-</u> | <u>160,000</u> |
| | <u>80,974,554</u> | <u>750,247</u> | <u>2,026,330</u> |
| | <u>2,967,598</u> | <u>(750,247)</u> | <u>3,958,359</u> |
| | 171,965 | - | 171,965 |
| | 1,326,492 | - | 166,619 |
| | <u>(2,622,236)</u> | <u>-</u> | <u>(16,004)</u> |
| | <u>(1,123,779)</u> | <u>-</u> | <u>322,580</u> |
| | 1,843,819 | (750,247) | 4,280,939 |
| | <u>8,508,485</u> | <u>-</u> | <u>-</u> |
| \$ | <u><u>10,352,304</u></u> | <u><u>(750,247)</u></u> | <u><u>4,280,939</u></u> |

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

JUNE 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2010 | \$ 1,009,894 | \$ 184,907,102 | \$ 183,897,208 | 0.55% | \$ 39,766,311 | 462.4% |
| 7/1/2008 | 501,409 | 166,550,323 | 166,048,914 | 0.30% | 33,252,323 | 499.4% |

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Required Contribution | Actual Contributions Made | Percentage Contributed |
|----------------------|------------------------------------|---------------------------------|---------------------------|
| 2012 | \$ 18,970,005 | \$ 7,905,784 | 42% |
| 2011 | 18,153,513 | 7,387,738 | 41% |
| 2010 | 16,797,954 | 7,041,276 | 42% |
| 2009 | 16,827,151 | 3,393,809 | 20% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Methods:

| | |
|-------------------------------|------------------------------|
| Valuation date | July 1, 2010 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level Dollar |
| Remaining amortization period | 27 Years as of June 30, 2011 |
| Asset valuation method | Market |

Actuarial Assumptions:

| | |
|------------------------------|-------------------------------|
| Investment rate of return | 5% |
| Medical/drug cost trend rate | 10% graded to 5% over 5 years |

Plan Membership:

| | |
|---|---------------------|
| Current retirees, beneficiaries, and dependents | 512 |
| Current active members | <u>750</u> |
| Total | <u><u>1,262</u></u> |

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Board of Selectmen (the "Board"). The Board presents an annual budget to the representative Town meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The representative 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 voted functions subsequent to the approval of the annual budget, requires a vote at a 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. These carry forwards are included as part of the subsequent fiscal year's original budget.

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget authorized approximately \$85.9 million in appropriations and other amounts to be raised.

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

B. Budgetary - GAAP Reconciliation

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

| | |
|---|---------------------|
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - budgetary basis..... | \$ 1,843,819 |
| <u>Perspective difference:</u> | |
| Activity of the Stabilization Funds recorded in the General Fund for GAAP..... | 313,440 |
| <u>Basis of accounting differences:</u> | |
| Net change in recording tax refunds payable..... | (198,000) |
| Net change in recording 60-day receipts accrual..... | (17,745) |
| Recognition of revenue for on-behalf payments..... | 8,560,637 |
| Recognition of expenditures for on-behalf payments..... | <u>(8,560,637)</u> |
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - GAAP basis..... | <u>\$ 1,941,514</u> |

C. Appropriation Deficits

General fund expenditures exceeded budgeted appropriations for state and county charges. This deficit will be funded in fiscal year 2013 through tax levy or other available funds.

NOTE B – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town’s group health and life insurance plans, which cover both active and retired members.

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis, but has established an Other Postemployment Benefit Trust fund to accumulate assets to help mitigate the costs of these benefits. As of the most recent actuarial report dated July 1, 2010, the Town had contributed approximately \$1 million to the fund. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is .55%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.