

***TOWN OF BILLERICA, MASSACHUSETTS***

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

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

TOWN OF BILLERICA, MASSACHUSETTS

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JUNE 30, 2012

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Billerica, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Billerica, Massachusetts, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Billerica, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Billerica, Massachusetts, as of June 30, 2012, 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.

As more fully described in Note 14, the Town has restated beginning net assets of the Water Enterprise Fund, the Sewer Enterprise Fund as well as beginning net assets of the governmental and business-type activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of the Town of Billerica, 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 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.

A handwritten signature in black ink, appearing to read "Bowers & Sullivan LLC". The signature is written in a cursive, flowing style.

March 22, 2013

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

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

As management of the Town of Billerica, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented in this report.

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

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

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

The *statement of net assets* presents information on all 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 is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions 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 include general government, public safety, education, public works, human services, culture and recreation, and interest.

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

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

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

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

The Town's general fund is considered a major fund for presentation purposes. The major funds are presented in separate columns in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

**Proprietary funds.** The Town maintains two types of 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 operations.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among various functions. The Town uses its internal service fund to account for self-insured health insurance activities.

**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. The accounting used for fiduciary funds is much like that used for propriety funds.

**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.

**Financial Highlights.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Billerica's governmental assets exceeded liabilities for governmental activities by \$59.3 million and the business-type assets exceed liabilities by \$66.0 million at the close of the most recent fiscal year. Key components of the Town's activities are presented below.

**Governmental Activities**

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Current assets.....	\$ 53,889,389	\$ 47,285,748
Capital assets.....	<u>89,037,030</u>	<u>72,892,724</u>
<b>Total assets.....</b>	<b>142,926,419</b>	<b>120,178,472</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	8,132,852	9,305,026
Noncurrent liabilities (excluding debt).....	48,600,000	33,599,000
Current debt.....	17,637,807	7,587,800
Noncurrent debt.....	<u>9,211,918</u>	<u>10,449,725</u>
<b>Total liabilities.....</b>	<b>83,582,577</b>	<b>60,941,551</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt..	64,660,952	55,733,061
Restricted.....	3,037,115	2,707,933
Unrestricted.....	<u>(8,354,225)</u>	<u>795,927</u>
<b>Total net assets.....</b>	<b>\$ <u>59,343,842</u></b>	<b>\$ <u>59,236,921</u></b>

Governmental net assets of \$64.7 million reflect 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 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 net assets, \$3.0 million, represent resources that are subject to external restrictions on how they may be used. At June 30, 2012, the remaining balance of *unrestricted net assets* has a deficit of \$8.4 million. The primary reason for this deficit balance is the recognition of OPEB liabilities.

	<u>2012</u>	<u>2011</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 9,989,585	\$ 8,370,925
Operating grants and contributions.....	38,937,010	39,025,781
Capital grants and contributions.....	8,570,482	3,610,514
<b>General Revenues:</b>		
Real estate and personal property taxes.....	94,414,715	91,869,868
Tax liens.....	1,430,895	1,104,506
Motor vehicle and other excise taxes.....	5,044,700	4,892,986
Hotel/Motel Tax.....	563,694	489,348
Penalties and interest on taxes.....	281,120	481,096
Payments in Lieu of taxes.....	140,922	132,791
Nonrestricted grants.....	4,964,266	4,925,266
Unrestricted investment income.....	<u>436,016</u>	<u>422,509</u>
<b>Total revenues.....</b>	<b>164,773,405</b>	<b>155,325,590</b>
<b>Expenses:</b>		
General Government.....	7,117,057	7,188,129
Public Safety.....	26,423,118	24,493,006
Education.....	105,937,339	101,454,185
Public Works.....	9,391,601	10,044,238
Human Services.....	2,247,780	1,955,096
Culture and Recreation.....	4,435,831	4,342,173
Interest.....	<u>569,148</u>	<u>683,824</u>
<b>Total expenses.....</b>	<b>156,121,874</b>	<b>150,160,651</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>8,651,531</b>	<b>5,164,939</b>
<b>Transfers.....</b>	<b><u>(8,544,610)</u></b>	<b><u>(8,386,965)</u></b>
<b>Change in net assets.....</b>	<b>\$ <u>106,921</u></b>	<b>\$ <u>(3,222,026)</u></b>

Governmental activities increased the Town's net assets by \$107,000 during the current fiscal year.

Total revenues increased by \$9.4 million. The main components of the increase were real estate revenues which increased \$2.5 million which is in line with the anticipated budget. Also affecting the increase was capital grant income which increased \$5 million which is mostly due to grant reimbursements received in support of the Parker School MSBA funded project. Charges for service revenue increased \$1.6 million because of increased ambulance receipts, better than expected fees from the issuance building related permits, and higher lease revenue from the lease of Town owned property for cell towers.

Expenses increased \$5.9 million mainly due to a \$3.6 million increase in the change in net OPEB obligation over the prior year, as well as a \$3.1 million increase in pension and employee benefits expenditures. These increases have been allocated across all functional categories.

The governmental activities supported the operations of the water and sewer enterprise funds in the form of an \$8.5 million operating contribution to cover operating losses.

**Business-type Activities**

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Current assets.....	\$ 12,558,069	\$ 11,224,927
Noncurrent assets (excluding capital).....	4,964,577	5,290,674
Capital assets not being depreciated.....	3,238,787	716,021
Capital assets, net of accumulated depreciation.....	<u>111,675,407</u>	<u>115,181,717</u>
<b>Total assets</b> .....	<b>132,436,840</b>	<b>132,413,339</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,619,427	1,530,620
Noncurrent liabilities (excluding debt).....	3,626,000	2,841,000
Current debt.....	7,793,469	5,132,718
Noncurrent debt.....	<u>53,400,960</u>	<u>58,681,537</u>
<b>Total liabilities</b> .....	<b>66,439,856</b>	<b>68,185,875</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	67,754,835	65,369,698
Unrestricted.....	<u>(1,757,851)</u>	<u>(1,142,234)</u>
<b>Total net assets</b> .....	<b>\$ <u>65,996,984</u></b>	<b>\$ <u>64,227,464</u></b>

Water and sewer business-type activities assets exceeded liabilities by \$66.0 million at the close of fiscal year 2012. Capital assets, net of related debt, were \$67.8 million while unrestricted net assets were in a deficit balance of \$(1.8 million).

	<u>2012</u>	<u>2011</u>
<b>Program revenues:</b>		
Charges for services.....	\$ 8,371,463	\$ 8,690,359
Operating grants and contributions.....	<u>726,189</u>	<u>764,621</u>
<b>Total revenues</b> .....	<b>9,097,652</b>	<b>9,454,980</b>
<b>Expenses:</b>		
Water.....	7,989,372	8,048,738
Sewer.....	<u>7,883,370</u>	<u>8,244,639</u>
<b>Total expenses</b> .....	<b>15,872,742</b>	<b>16,293,377</b>
<b>Excess (Deficiency) before transfers</b> .....	<b>(6,775,090)</b>	<b>(6,838,397)</b>
<b>Transfers</b> .....	<u>8,544,610</u>	<u>8,386,965</u>
<b>Change in net assets</b> .....	<b>\$ <u>1,769,520</u></b>	<b>\$ <u>1,548,568</u></b>

During the current fiscal year the general fund transferred \$8.5 million of operating activity to the water and sewer funds.

The business-type activities show a (\$6.8) million deficit before transfers and operating contributions. The operating deficits primarily relates to the fact that charges for services for the water enterprise fund and the sewer enterprise are not set to recover the respective operating and interest costs. The general fund currently subsidizes the operating deficits.

### ***Financial Analysis of the Government's Funds***

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

***Governmental funds.*** The focus of the Town of Billerica'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 Billerica'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 \$17.7 million, a net decrease of \$292,000 from the prior year. The decrease is due to increases in the general fund of \$5.4 million; offset by a \$6.0 million decrease in the MSBA Parker School fund, as well as a \$319,000 increase in non-major funds.

#### *General Fund*

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$20.5 million, while total fund balance was \$22.5 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 approximately 15.9% of total general fund expenditures, while total fund balance represents approximately 17.4% of that same amount. Included in the unassigned balance is \$6.3 million of stabilization funds.

Fund balance of the general fund increased \$5.4 million from the prior year. This increase is primarily due to favorable budgetary results of realizing higher than expected revenues and lower than expected expenditures.

#### *MSBA Parker School*

This fund accounts for, and reports the results of operations for, activities relating to the construction of the new Parker School. Fund balance decreased by \$6.0 million during the fiscal year. The decrease is attributable to the Town having incurred construction costs in excess of grant revenues. The deficit will be funded by the issuance of long term debt.

## ***General Fund Budgetary Highlights***

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

Actual revenues came in more than budget by \$4.0 million, primarily due to the collection of \$928,000 of unbudgeted tax lien receipts, higher than expected building permit fees, as well as higher than expected ambulance user charge receipts.

Actual expenditures and carryovers were less than budgeted expenditures by approximately \$3.5 million due to large turn-backs in the public safety, public works, and building insurance appropriations.

The Town has carried over approximately \$2.0 million in appropriations to fiscal year 2013.

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

In conjunction with the operating budget, the Town annually prepares capital budgets for each upcoming fiscal year.

The majority of the current fiscal year's business-type capital asset activity relates to \$2.2 million of improvements to the wastewater treatment facility. The facility was placed in service during the fiscal year; and accordingly all amounts previously capitalized as construction in progress are now recorded as infrastructure. The business-type activities total capital assets net of accumulated depreciation was \$114.9 million at the end of fiscal year 2012.

The Town's governmental major capital activity related to \$15.3 million of construction costs relative to the new Parker School building project. Other governmental additions included \$1.9 million of Chapter 90 roadway upgrade costs, as well as \$1.5 million for new public safety and public works vehicles. The funding for these capital expenditures came from the issuance of long-term bonds, general fund appropriations, and capital grants from the Commonwealth. The governmental activities total capital assets net of accumulated depreciation was \$89 million at the end of fiscal year 2012.

Outstanding long-term debt, as of June 30, 2012, totaled \$69.1 million, of which \$58.7 million relates to various water and sewer projects, and \$10.4 million relates to various school and general governmental projects.

Outstanding short-term debt, as of June 30, 2012, totaled \$19.1 million, of which \$16.4 million relates to the Parker School construction project and \$2.7 million relates to various water and sewer projects.

## ***Requests for Information***

This financial report is designed to provide a general overview of the Town of Billerica'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 Office of the Town Accountant, Town Hall, 365 Boston Road, Billerica, Massachusetts 01821.

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# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 41,558,248	\$ 7,805,111	\$ 49,363,359
Investments.....	1,239,942	-	1,239,942
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,129,198	-	1,129,198
Tax liens.....	4,177,614	-	4,177,614
Motor vehicle and other excise taxes.....	543,431	-	543,431
Water fees.....	-	1,581,216	1,581,216
Sewer fees.....	-	1,350,695	1,350,695
Departmental and other.....	498,442	-	498,442
Intergovernmental.....	2,666,972	1,821,047	4,488,019
Working capital deposit.....	88,000	-	88,000
Tax foreclosures.....	1,987,542	-	1,987,542
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	-	4,964,577	4,964,577
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	46,722,584	3,238,787	49,961,371
Depreciable.....	42,314,446	111,675,407	153,989,853
<b>TOTAL ASSETS.....</b>	<b>142,926,419</b>	<b>132,436,840</b>	<b>275,363,259</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,902,827	490,856	4,393,683
Accrued payroll.....	313,908	145,954	459,862
Health claims payable.....	1,239,000	-	1,239,000
Tax refunds payable.....	1,082,000	-	1,082,000
Accrued interest.....	111,144	738,617	849,761
Other liabilities.....	149,010	-	149,010
Advance collections.....	82,963	-	82,963
Compensated absences.....	1,252,000	244,000	1,496,000
Notes payable.....	16,400,000	2,727,186	19,127,186
Bonds payable.....	1,237,807	5,066,283	6,304,090
<b>NONCURRENT:</b>			
Compensated absences.....	1,600,000	293,000	1,893,000
Other postemployment benefits.....	47,000,000	3,333,000	50,333,000
Bonds payable.....	9,211,918	53,400,960	62,612,878
<b>TOTAL LIABILITIES.....</b>	<b>83,582,577</b>	<b>66,439,856</b>	<b>150,022,433</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	64,660,952	67,754,835	132,415,787
Restricted for:			
Permanent funds:			
Expendable.....	36,712	-	36,712
Nonexpendable.....	1,536,431	-	1,536,431
Grants and gifts.....	1,463,972	-	1,463,972
Unrestricted.....	(8,354,225)	(1,757,851)	(10,112,076)
<b>TOTAL NET ASSETS.....</b>	<b>\$ 59,343,842</b>	<b>\$ 65,996,984</b>	<b>\$ 125,340,826</b>

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	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 7,117,057	\$ 1,824,621	\$ 19,524	\$ -	\$ (5,272,912)
Public safety.....	26,423,118	3,044,423	380,641	26,172	(22,971,882)
Education.....	105,937,339	3,430,448	38,056,384	8,544,310	(55,906,197)
Public works.....	9,391,601	669,487	57,066	-	(8,665,048)
Human services.....	2,247,780	245,277	379,002	-	(1,623,501)
Culture and recreation.....	4,435,831	775,329	44,393	-	(3,616,109)
Interest.....	569,148	-	-	-	(569,148)
Total Primary Government.....	<u>156,121,874</u>	<u>9,989,585</u>	<u>38,937,010</u>	<u>8,570,482</u>	<b>(98,624,797)</b>
<i>Business-Type Activities:</i>					
Water.....	7,989,372	4,695,896	726,189	-	(2,567,287)
Sewer.....	7,883,370	3,675,567	-	-	(4,207,803)
Total Business-Type Activities.....	<u>15,872,742</u>	<u>8,371,463</u>	<u>726,189</u>	<u>-</u>	<b>(6,775,090)</b>
Total Primary Government.....	<u>\$ 171,994,616</u>	<u>\$ 18,361,048</u>	<u>\$ 39,663,199</u>	<u>\$ 8,570,482</u>	<b><u>\$ (105,399,887)</u></b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(98,624,797)</b>	\$ <b>(6,775,090)</b>	\$ <b>(105,399,887)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds.....	94,414,715	-	94,414,715
Tax liens.....	1,430,895	-	1,430,895
Motor vehicle and other excise taxes.....	5,044,700	-	5,044,700
Hotel/motel tax.....	563,694	-	563,694
Penalties and interest on taxes.....	281,120	-	281,120
Payments in lieu of taxes.....	140,922	-	140,922
Grants and contributions not restricted to specific programs.....	4,964,266	-	4,964,266
Unrestricted investment income.....	436,016	-	436,016
<i>Transfers, net</i> .....	<u>(8,544,610)</u>	<u>8,544,610</u>	<u>-</u>
Total general revenues and transfers.....	<u>98,731,718</u>	<u>8,544,610</u>	<u>107,276,328</u>
Change in net assets.....	106,921	1,769,520	1,876,441
<i>Net Assets:</i>			
Beginning of year, as restated.....	<u>59,236,921</u>	<u>64,227,464</u>	<u>123,464,385</u>
End of year.....	\$ <u><u>59,343,842</u></u>	\$ <u><u>65,996,984</u></u>	\$ <u><u>125,340,826</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

<b>ASSETS</b>	General	MSBA Parker School	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 23,234,309	\$ 4,502,405	\$ 8,686,998	\$ 36,423,712
Investments.....	979,554	-	260,388	1,239,942
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,129,198	-	-	1,129,198
Tax liens.....	4,177,614	-	-	4,177,614
Motor vehicle and other excise taxes.....	543,431	-	-	543,431
Departmental and other.....	498,442	-	-	498,442
Intergovernmental.....	-	1,296,015	1,370,957	2,666,972
Tax foreclosures.....	1,987,542	-	-	1,987,542
<b>TOTAL ASSETS.....</b>	<b>\$ 32,550,090</b>	<b>\$ 5,798,420</b>	<b>\$ 10,318,343</b>	<b>\$ 48,666,853</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 512,870	\$ 1,902,589	\$ 1,487,368	\$ 3,902,827
Accrued payroll.....	313,908	-	-	313,908
Tax refunds payable.....	1,082,000	-	-	1,082,000
Other liabilities.....	149,010	-	-	149,010
Deferred revenues and advance collections.....	7,995,858	-	1,100,931	9,096,789
Notes payable.....	-	15,900,000	500,000	16,400,000
<b>TOTAL LIABILITIES.....</b>	<b>10,053,646</b>	<b>17,802,589</b>	<b>3,088,299</b>	<b>30,944,534</b>
<b>FUND BALANCES:</b>				
Nonspendable.....	-	-	1,536,431	1,536,431
Restricted.....	-	-	7,973,631	7,973,631
Assigned.....	2,025,582	-	-	2,025,582
Unassigned.....	20,470,862	(12,004,169)	(2,280,018)	6,186,675
<b>TOTAL FUND BALANCES.....</b>	<b>22,496,444</b>	<b>(12,004,169)</b>	<b>7,230,044</b>	<b>17,722,319</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 32,550,090</b>	<b>\$ 5,798,420</b>	<b>\$ 10,318,343</b>	<b>\$ 48,666,853</b>

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....		\$ 17,722,319
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		89,037,030
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		9,013,826
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.....		3,983,536
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(111,144)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(10,449,725)	
Compensated absences.....	(2,852,000)	
Other postemployment benefits.....	<u>(47,000,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(60,301,725)</u>
Net assets of governmental activities.....		<u>\$ 59,343,842</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	MSBA Parker School	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 94,742,166	\$ -	\$ -	\$ 94,742,166
Tax liens.....	928,497	-	-	928,497
Motor vehicle excise tax.....	5,064,186	-	-	5,064,186
Hotel/motel tax.....	563,694	-	-	563,694
Charges for services.....	-	-	390,060	390,060
Penalties and interest on taxes.....	281,120	-	-	281,120
Fees and rentals.....	2,645,882	-	-	2,645,882
Licenses and permits.....	1,009,237	-	-	1,009,237
Intergovernmental.....	39,068,886	8,328,609	7,709,436	55,106,931
Departmental and other.....	952,195	-	3,999,673	4,951,868
Contributions.....	-	-	80,075	80,075
Investment income.....	389,125	-	46,157	435,282
<b>TOTAL REVENUES.....</b>	<b>145,644,988</b>	<b>8,328,609</b>	<b>12,225,401</b>	<b>166,198,998</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	3,818,141	-	398,544	4,216,685
Public safety.....	15,221,466	-	1,831,796	17,053,262
Education.....	56,645,117	14,372,221	7,886,094	78,903,432
Public works.....	6,428,648	-	2,185,742	8,614,390
Human services.....	1,248,144	-	555,851	1,803,995
Culture and recreation.....	1,685,951	-	1,376,196	3,062,147
Pension benefits.....	22,668,018	-	-	22,668,018
Employee benefits.....	12,969,404	-	-	12,969,404
Building Insurance.....	879,604	-	-	879,604
State and county charges.....	5,320,389	-	-	5,320,389
Capital outlay.....	184,729	-	-	184,729
Debt service:				
Principal.....	1,687,800	-	-	1,687,800
Interest.....	582,141	-	-	582,141
<b>TOTAL EXPENDITURES.....</b>	<b>129,339,552</b>	<b>14,372,221</b>	<b>14,234,223</b>	<b>157,945,996</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>16,305,436</b>	<b>(6,043,612)</b>	<b>(2,008,822)</b>	<b>8,253,002</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating activity transferred out to enterprise funds.....	(7,739,760)	-	-	(7,739,760)
Transfers in.....	392,125	-	3,085,811	3,477,936
Transfers out.....	(3,525,000)	-	(757,786)	(4,282,786)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(10,872,635)</b>	<b>-</b>	<b>2,328,025</b>	<b>(8,544,610)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>5,432,801</b>	<b>(6,043,612)</b>	<b>319,203</b>	<b>(291,608)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>17,063,643</b>	<b>(5,960,557)</b>	<b>6,910,841</b>	<b>18,013,927</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 22,496,444</b>	<b>\$ (12,004,169)</b>	<b>\$ 7,230,044</b>	<b>\$ 17,722,319</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds.....	\$	(291,608)
<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.....		19,225,325
Depreciation expense.....		<u>(3,081,019)</u>
Net effect of reporting capital assets.....		16,144,306
<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>		
		(1,426,327)
<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 Net Assets.</p>		
Debt service principal payments.....		<u>1,687,800</u>
Net effect of reporting long-term debt.....		1,687,800
<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 other postemployment benefits accrual.....		(15,157,000)
Net change in compensated absences accrual.....		304,000
Net change in accrued interest on long-term debt.....		<u>12,993</u>
Net effect of recording long-term liabilities.....		(14,840,007)
<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>(1,167,243)</u>
Change in net assets of governmental activities.....	\$	<u><u>106,921</u></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 Enterprise	Sewer Enterprise	Total	
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 7,769,232	\$ 35,879	\$ 7,805,111	\$ 5,134,536
Receivables, net of allowance for uncollectibles:				
Water fees.....	1,581,216	-	1,581,216	-
Sewer fees.....	-	1,350,695	1,350,695	-
Intergovernmental.....	298,130	1,522,917	1,821,047	-
Working capital deposit.....	-	-	-	88,000
Total current assets.....	<u>9,648,578</u>	<u>2,909,491</u>	<u>12,558,069</u>	<u>5,222,536</u>
<b>NONCURRENT:</b>				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	4,964,577	-	4,964,577	-
Capital assets, net of accumulated depreciation:				
Nondepreciable.....	65,957	3,172,830	3,238,787	-
Depreciable.....	<u>43,175,673</u>	<u>68,499,734</u>	<u>111,675,407</u>	<u>-</u>
Total noncurrent assets.....	<u>48,206,207</u>	<u>71,672,564</u>	<u>119,878,771</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<u>57,854,785</u>	<u>74,582,055</u>	<u>132,436,840</u>	<u>5,222,536</u>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	105,468	385,388	490,856	-
Accrued payroll.....	65,001	80,953	145,954	-
Health claims payable.....	-	-	-	1,239,000
Accrued interest.....	483,459	255,158	738,617	-
Compensated absences.....	125,000	119,000	244,000	-
Notes payable.....	-	2,727,186	2,727,186	-
Bonds payable.....	<u>2,413,696</u>	<u>2,652,587</u>	<u>5,066,283</u>	<u>-</u>
Total current liabilities.....	<u>3,192,624</u>	<u>6,220,272</u>	<u>9,412,896</u>	<u>1,239,000</u>
<b>NONCURRENT:</b>				
Compensated absences.....	150,000	143,000	293,000	-
Other postemployment benefits.....	1,497,000	1,836,000	3,333,000	-
Bonds payable.....	<u>24,425,179</u>	<u>28,975,781</u>	<u>53,400,960</u>	<u>-</u>
Total noncurrent liabilities.....	<u>26,072,179</u>	<u>30,954,781</u>	<u>57,026,960</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<u>29,264,803</u>	<u>37,175,053</u>	<u>66,439,856</u>	<u>1,239,000</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	29,233,055	38,521,780	67,754,835	-
Unrestricted.....	<u>(643,073)</u>	<u>(1,114,778)</u>	<u>(1,757,851)</u>	<u>3,983,536</u>
<b>TOTAL NET ASSETS.....</b>	<u>\$ 28,589,982</u>	<u>\$ 37,407,002</u>	<u>\$ 65,996,984</u>	<u>\$ 3,983,536</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

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	Water Enterprise	Sewer Enterprise	Total	
<b>OPERATING REVENUES:</b>				
Employee contributions .....	\$ -	\$ -	\$ -	\$ 4,380,099
Employer contributions .....	-	-	-	11,753,439
Charges for services .....	4,557,579	3,675,567	8,233,146	-
Other.....	152,399	-	152,399	-
<b>TOTAL OPERATING REVENUES .....</b>	<b>4,709,978</b>	<b>3,675,567</b>	<b>8,385,545</b>	<b>16,133,538</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration.....	5,437,172	4,512,753	9,949,925	-
Depreciation.....	1,284,876	2,266,414	3,551,290	-
Employee benefits .....	-	-	-	17,301,515
<b>TOTAL OPERATING EXPENSES .....</b>	<b>6,722,048</b>	<b>6,779,167</b>	<b>13,501,215</b>	<b>17,301,515</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(2,012,070)</b>	<b>(3,103,600)</b>	<b>(5,115,670)</b>	<b>(1,167,977)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	-	-	-	734
Interest expense.....	(1,267,324)	(1,104,203)	(2,371,527)	-
MWPAT interest subsidy.....	712,107	-	712,107	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(555,217)</b>	<b>(1,104,203)</b>	<b>(1,659,420)</b>	<b>734</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS.....</b>	<b>(2,567,287)</b>	<b>(4,207,803)</b>	<b>(6,775,090)</b>	<b>(1,167,243)</b>
<b>OPERATING CONTRIBUTIONS.....</b>	<b>3,224,350</b>	<b>4,515,410</b>	<b>7,739,760</b>	<b>-</b>
<b>TRANSFERS:</b>				
Transfers in.....	600,000	560,100	1,160,100	-
Transfers out.....	(355,250)	-	(355,250)	-
<b>TOTAL TRANSFERS.....</b>	<b>244,750</b>	<b>560,100</b>	<b>804,850</b>	<b>-</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>901,813</b>	<b>867,707</b>	<b>1,769,520</b>	<b>(1,167,243)</b>
<b>NET ASSETS AT BEGINNING OF YEAR, (as restated) .....</b>	<b>27,688,169</b>	<b>36,539,295</b>	<b>64,227,464</b>	<b>5,150,779</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 28,589,982</b>	<b>\$ 37,407,002</b>	<b>\$ 65,996,984</b>	<b>\$ 3,983,536</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water Enterprise</u>	<u>Sewer Enterprise</u>	<u>Total</u>	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 4,548,515	\$ 3,483,722	\$ 8,032,237	\$ -
Receipts from interfund services provided.....	-	-	-	16,133,538
Payments to vendors.....	(3,819,447)	(3,248,958)	(7,068,405)	-
Payments to employees.....	(1,432,452)	(879,414)	(2,311,866)	-
Payments for interfund services used.....	-	-	-	(17,209,415)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b><u>(703,384)</u></b>	<b><u>(644,650)</u></b>	<b><u>(1,348,034)</u></b>	<b><u>(1,075,877)</u></b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers in.....	600,000	560,100	1,160,100	-
Transfers out.....	(355,250)	-	(355,250)	-
Operating contributions.....	3,224,350	4,515,410	7,739,760	-
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b><u>3,469,100</u></b>	<b><u>5,075,510</u></b>	<b><u>8,544,610</u></b>	<b><u>-</u></b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	-	1,588,107	1,588,107	-
Acquisition and construction of capital assets.....	(11,200)	(2,202,521)	(2,213,721)	-
Principal payments on bonds and notes.....	(2,032,169)	(2,997,904)	(5,030,073)	-
Interest expense.....	(585,857)	(1,123,435)	(1,709,292)	-
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b><u>(2,629,226)</u></b>	<b><u>(4,735,753)</u></b>	<b><u>(7,364,979)</u></b>	<b><u>-</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	-	-	-	734
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>136,490</b>	<b>(304,893)</b>	<b>(168,403)</b>	<b>(1,075,143)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b><u>7,632,742</u></b>	<b><u>340,772</u></b>	<b><u>7,973,514</u></b>	<b><u>6,209,679</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b><u>\$ 7,769,232</u></b>	<b><u>\$ 35,879</u></b>	<b><u>\$ 7,805,111</u></b>	<b><u>\$ 5,134,536</u></b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ (2,012,070)	\$ (3,103,600)	\$ (5,115,670)	\$ (1,167,977)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,284,876	2,266,414	3,551,290	-
Changes in assets and liabilities:				
Water fees.....	(161,463)	-	(161,463)	-
Sewer fees.....	-	(191,845)	(191,845)	-
Working capital deposit.....	-	-	-	(9,900)
Warrants payable.....	(141,659)	(64,270)	(205,929)	-
Accrued payroll.....	(20,068)	32,651	12,583	-
Health claims payable.....	-	-	-	102,000
Accrued compensated absences.....	(45,000)	(46,000)	(91,000)	-
Other postemployment benefits.....	392,000	462,000	854,000	-
Total adjustments.....	<u>1,308,686</u>	<u>2,458,950</u>	<u>3,767,636</u>	<u>92,100</u>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b><u>\$ (703,384)</u></b>	<b><u>\$ (644,650)</u></b>	<b><u>\$ (1,348,034)</u></b>	<b><u>\$ (1,075,877)</u></b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>				
MWPAT debt service subsidy.....	\$ 712,107	\$ -	\$ -	-

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 1,409,575	\$ 1,204,710
<b>LIABILITIES</b>		
Warrants payable.....	-	1,000
Liabilities due depositors.....	-	1,203,710
<b>TOTAL LIABILITIES.....</b>	<u>-</u>	<u>1,204,710</u>
<b>NET ASSETS</b>		
Held in trust for private purposes.....	\$ <u>1,409,575</u>	\$ <u>-</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<b><u>ADDITIONS:</u></b>	
Contributions:	
Private donations.....	\$ 71,622
Net investment income:	
Interest.....	<u>166,681</u>
TOTAL ADDITIONS.....	<u>238,303</u>
<b><u>DEDUCTIONS:</u></b>	
Educational scholarships.....	<u>154,590</u>
CHANGE IN NET ASSETS.....	83,713
NET ASSETS AT BEGINNING OF YEAR.....	<u>1,325,862</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 1,409,575</u>

See notes to basic financial statements.

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

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

**A. Reporting Entity**

The Town of Billerica is a municipal corporation governed by an elected Board of Selectmen.

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. The Town has determined that there are no component units.

**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 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 un-matured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

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

The *MSBA Parker School fund* is used to account for the activity relating to the Parker School Construction project.

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 financial activity that occurs as a result of the ongoing operations within the water department.

The *sewer enterprise fund* is used to account for the financial activity that occurs as a result of the ongoing operations within the sewer department.

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 for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

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 primarily used to account for public works and planning board performance bonds and police detail activity but also accounts for any asset that is held in a purely custodial capacity. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

#### 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.

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

#### 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 July 1<sup>st</sup> and January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed within 30 days of the close of the following fiscal year end for all taxes that are considered delinquent at that time. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

**Sewer**

User fees are levied three time a year in December, March, and August based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed every year and included as a lien on the property owner's tax bill. Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

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

**Water**

User fees are levied three time a year in December, March, and August based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed every year and included as a lien on the property owner's tax bill. Water charges and liens are recorded as receivables in the fiscal year of the levy.

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

**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 uncollectible accounts.

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

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

**G. Capital Assets**

*Government-Wide 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 \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in process) are depreciated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of capital assets being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings.....	20-40
Vehicles.....	5-15
Machinery and equipment.....	5-10
Infrastructure.....	40-50

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

*Governmental Fund Financial Statements*

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

**H. Interfund Receivables and Payables**

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

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental 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 are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and fiduciary funds 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 – nonexpendable” represents the endowment portion of donor restricted trusts. Only investment earnings may be expended from this category.

“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.

“Grants and gifts” – represents amounts held for school and other Town grants, and for gift funds.

*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 Town Meeting.

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

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

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

L. Long-term debt*Government-Wide Financial Statements*

Long-term debt is reported as liabilities in the government-wide 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 non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary fund operations is voluntarily assigned and transferred to the general 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 Financial Statements*

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

#### *Governmental Fund Financial Statements*

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

### O. Individual Fund Deficits

There are individual fund deficits within the Special Revenue and Capital Project Funds that will be funded through grants, bond proceeds and available fund balance during fiscal 2013.

### P. Use of Estimates

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

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

### Q. Total Column

#### *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 balance sheet as "Cash and cash equivalents". The deposits 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. At fiscal year-end, the carrying amount of deposits totaled \$44,562,547 and the bank balance totaled \$48,551,748. Of the bank balance, \$9,630,342 was covered by Federal Depository Insurance, \$1,104,769 was covered by the Share Insurance Fund insurance, \$23,401,121 was collateralized, and \$9,403,175 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Share Insurance Fund (SIF) is a private fund owned by the member co-operative banks, which insures all deposits at co-operative banks in Massachusetts above Federal Deposit Insurance Corporation (FDIC) limits.

The Town's investment policy addresses custodial credit risk of deposits by establishing the following policy: The Town will not have on deposit with a single financial institution more than 60% of the institutions total equity presented on the specific institution's annual audited financial statements. Additionally, no single bank or bank holding company shall hold in excess of 75% of the Treasurer's cash balance for greater than three consecutive days.

Investments

As of June 30, 2012, the Town had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity 1-5 Years</b>	<b>Over 10 Years</b>	<b>Rating</b>
<u>Debt Securities</u>				
U.S. Government Agencies.....	\$ 721,214	\$ 721,214	\$ -	AAA
Corporate Bonds.....	73,336	-	73,336	BAA2
Total Debt Securities.....	794,550	\$ 721,214	\$ 73,336	
<u>Other Investments</u>				
Equity Securities.....	474,269			
Money Market Mutual Funds.....	7,331,496			
MMDT.....	54,724			
Total Investments.....	\$ 8,655,039			

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The investments of \$698,330 in United States Government Enterprises, \$74,060 in Corporate Bonds, and \$467,552 in Equity Securities are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty. Excluding investments in United States Government Agency bonds, United States Treasury Notes, and MMDT, no more than 75% of the Town's total investment portfolio will be held by any single financial institution.

#### Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

#### Credit Risk

The Town has not adopted a formal policy related to Credit Risk.

#### Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer. At June 30, 2012, the Town's did not maintain investments requiring concentration of credit risk disclosure.

### **NOTE 3 – RECEIVABLES**

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,551,348	\$ (422,150)	\$ 1,129,198
Tax liens.....	4,177,614	-	4,177,614
Motor vehicle and other excise taxes.....	1,274,768	(731,337)	543,431
Departmental and other.....	1,102,442	(604,000)	498,442
Intergovernmental.....	2,666,972	-	2,666,972
Total.....	<u>\$ 10,773,144</u>	<u>\$ (1,757,487)</u>	<u>\$ 9,015,657</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Receivables:</u>			
Water fees.....	\$ 1,581,216	\$ -	\$ 1,581,216
Sewer fees.....	1,350,695	-	1,350,695
Intergovernmental.....	<u>6,785,624</u>	<u>-</u>	<u>6,785,624</u>
Total.....	<u>\$ 9,717,535</u>	<u>\$ -</u>	<u>\$ 9,717,535</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues and advance collections 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	Other Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<u>Receivables and other asset types:</u>			
Real estate and personal property taxes.....	\$ 788,829	\$ -	\$ 788,829
Tax liens.....	4,177,614	-	4,177,614
Motor vehicle and other excise taxes.....	543,431	-	543,431
Departmental and other.....	498,442	-	498,442
Intergovernmental.....	-	1,017,968	1,017,968
*Advance collections.....	-	82,963	82,963
Tax foreclosures.....	<u>1,987,542</u>	<u>-</u>	<u>1,987,542</u>
Total.....	<u>\$ 7,995,858</u>	<u>\$ 1,100,931</u>	<u>\$ 9,096,789</u>

\* Revenue collections, occurring during fiscal year 2012, in advance of recreational programming that will take place during fiscal year 2013 are initially recorded as a component of governmental fund deferred revenues. The Town will recognize the revenue during fiscal year 2013 as the related recreation programs are complete.

**NOTE 4 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 21,009,852	\$ -	-	\$ 21,009,852
Construction in progress.....	10,429,714	15,283,018	-	25,712,732
Total capital assets not being depreciated.....	<u>31,439,566</u>	<u>15,283,018</u>	<u>-</u>	<u>46,722,584</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	4,949,284	35,231	-	4,984,515
Buildings.....	55,151,004	127,568	-	55,278,572
Vehicles.....	7,980,783	1,463,281	(24,684)	9,419,380
Machinery and equipment.....	6,851,104	408,954	-	7,260,058
Infrastructure.....	38,435,927	1,907,273	-	40,343,200
Total capital assets being depreciated.....	<u>113,368,102</u>	<u>3,942,307</u>	<u>(24,684)</u>	<u>117,285,725</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(2,240,750)	(155,813)	-	(2,396,563)
Buildings.....	(32,638,028)	(1,071,384)	-	(33,709,412)
Vehicles.....	(6,660,300)	(460,427)	24,684	(7,096,043)
Machinery and equipment.....	(5,306,560)	(425,008)	-	(5,731,568)
Infrastructure.....	(25,069,306)	(968,387)	-	(26,037,693)
Total accumulated depreciation.....	<u>(71,914,944)</u>	<u>(3,081,019)</u>	<u>24,684</u>	<u>(74,971,279)</u>
Total capital assets being depreciated, net.....	<u>41,453,158</u>	<u>861,288</u>	<u>-</u>	<u>42,314,446</u>
Total governmental activities capital assets, net.....	<u>\$ 72,892,724</u>	<u>\$ 16,144,306</u>	<u>\$ -</u>	<u>\$ 89,037,030</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 65,957	\$ -	\$ -	\$ 65,957
Construction in progress.....	-	-	-	-
Total capital assets not being depreciated.....	<u>65,957</u>	<u>-</u>	<u>-</u>	<u>65,957</u>
<u>Capital assets being depreciated:</u>				
Vehicles.....	420,218	-	-	420,218
Machinery and equipment.....	165,229	11,200	-	176,429
Infrastructure.....	58,921,577	-	-	58,921,577
Total capital assets being depreciated.....	<u>59,507,024</u>	<u>11,200</u>	<u>-</u>	<u>59,518,224</u>
<u>Less accumulated depreciation for:</u>				
Vehicles.....	(373,899)	(21,596)	-	(395,495)
Machinery and equipment.....	(100,104)	(17,325)	-	(117,429)
Infrastructure.....	(14,583,672)	(1,245,955)	-	(15,829,627)
Total accumulated depreciation.....	<u>(15,057,675)</u>	<u>(1,284,876)</u>	<u>-</u>	<u>(16,342,551)</u>
Total capital assets being depreciated, net.....	<u>44,449,349</u>	<u>(1,273,676)</u>	<u>-</u>	<u>43,175,673</u>
Total water capital assets, net.....	<u>\$ 44,515,306</u>	<u>\$ (1,273,676)</u>	<u>\$ -</u>	<u>\$ 43,241,630</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 650,064	\$ -	\$ -	\$ 650,064
Construction in progress.....	-	2,522,766	-	2,522,766
Total capital assets not being depreciated.....	650,064	2,522,766	-	3,172,830
<u>Capital assets being depreciated:</u>				
Buildings.....	2,924,117	-	-	2,924,117
Machinery and equipment.....	362,851	33,780	-	396,631
Vehicles.....	888,882	-	-	888,882
Infrastructure.....	98,258,906	-	-	98,258,906
Total capital assets being depreciated.....	102,434,756	33,780	-	102,468,536
<u>Less accumulated depreciation for:</u>				
Buildings.....	(1,571,713)	(73,103)	-	(1,644,816)
Machinery and equipment.....	(296,620)	(9,503)	-	(306,123)
Vehicles.....	(649,571)	(45,080)	-	(694,651)
Infrastructure.....	(29,184,484)	(2,138,728)	-	(31,323,212)
Total accumulated depreciation.....	(31,702,388)	(2,266,414)	-	(33,968,802)
Total capital assets being depreciated, net.....	70,732,368	(2,232,634)	-	68,499,734
Total sewer capital assets, net.....	\$ 71,382,432	\$ 290,132	\$ -	\$ 71,672,564

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

**Governmental Activities:**

General government.....	\$ 101,064
Public safety.....	469,296
Education.....	842,854
Public works.....	1,207,564
Human services.....	27,500
Culture and recreation.....	432,741
Total depreciation expense - governmental activities.....	\$ 3,081,019

**Business-Type Activities:**

Water.....	\$ 1,284,876
Sewer.....	2,266,414
Total depreciation expense - business-type activities.....	\$ 3,551,290

**NOTE 5 – INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES**

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

Transfers Out:	Transfers In:				Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 2,925,000	\$ 600,000	\$ -	\$ 3,525,000 (1)
Nonmajor Governmental Funds.....	36,875	160,811	-	560,100	757,786 (2)
Water Enterprise Fund.....	355,250	-	-	-	355,250 (3)
Total.....	<u>\$ 392,125</u>	<u>\$ 3,085,811</u>	<u>\$ 600,000</u>	<u>\$ 560,100</u>	<u>\$ 4,638,036</u>

- (1) Represents budgeted transfers from the general fund to various capital project funds, and the water fund for various construction projects.
- (2) Represents a \$36,875 transfer from the Rink Revolving Fund to the general fund, \$160,811 from the Sale of Cemetery Lots Fund to Cemetery Capital Improvements Fund, and \$560,100 from the I&I revolving fund to the Sewer fund.
- (3) Represents a budgeted transfer from the Backflow Prevention Revolving Fund to the General Fund.

In addition to the budgeted transfers detailed above, the Town transferred approximately \$7.7 million from the general fund to the water and sewer funds. This amount represents operating and debt services activities originally recorded and paid for in the general fund.

**NOTE 6 – SHORT-TERM FINANCING**

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2012, are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2012
BAN	Schools - Parker Construction.....	1.50%	05/18/12	\$ 5,705,142	\$ -	\$ 5,705,142	\$ -
BAN	Schools - Parker Feasibility.....	1.50%	05/18/12	194,858	-	194,858	-
BAN	Schools - Parker Construction.....	1.50%	08/10/12	-	10,000,000	-	10,000,000
BAN	Schools - Parker Construction.....	1.00%	05/17/13	-	5,900,000	-	5,900,000
BAN	Fire Equipment.....	1.00%	05/17/13	-	500,000	-	500,000
	Total Governmental Funds.....			<u>5,900,000</u>	<u>16,400,000</u>	<u>5,900,000</u>	<u>16,400,000</u>
BAN	Sewer.....	1.00%	05/17/13	-	1,212,000	-	1,212,000
BAN**	Temporary MWPAT Financing.....	2.00%	06/30/13	-	1,515,186	-	1,515,186
	Total Sewer Fund.....			<u>-</u>	<u>2,727,186</u>	<u>-</u>	<u>2,727,186</u>
	Total.....			<u>\$ 5,900,000</u>	<u>\$ 19,127,186</u>	<u>\$ 5,900,000</u>	<u>\$ 19,127,186</u>

On August 10, 2012, the \$10 million BAN associated with the Parker School Construction, came due and was renewed at a rate of 1.00%. The new note will mature on May 17, 2013.

The Massachusetts Water Pollution Trust (MWPAT) Temporary Financing relates to a program in which the Town is able to rehabilitate, expand, or upgrade the existing sewer infrastructure network. The Town has been preliminarily approved for construction costs of up to \$1,515,186 at a market interest rate of 2%. The Town entered into the financing in April of 2012 and at that time the Town was allowed 2 years to expend funds against the loan. After the two years, the Town will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the Town is only liable for the payment of interest costs.

**NOTE 7 – 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".

In prior fiscal years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2012, \$4,350,000 of bonds outstanding from the advance refunding transactions is considered defeased.

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

**Bond Payable Schedule – Governmental Funds**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Reductions	Outstanding at June 30, 2012
Municipal Purpose Bonds of 1998 - Refunding.....	2028	\$ 3,500,000	2.38 - 4.50%	\$ 1,190,000	\$ -	\$ 180,385	\$ 1,009,615
Municipal Purpose Bonds of 2002.....	2021	1,764,000	2.13 - 3.00%	310,525	-	160,415	150,110
Municipal Purpose Bonds of 2003.....	2023	500,000	3.25 - 5.00%	300,000	-	25,000	275,000
Municipal Purpose Bonds of 2005.....	2025	4,400,000	3.85%	3,080,000	-	220,000	2,860,000
Municipal Purpose Bonds of 2008.....	2028	5,036,000	2.38 - 4.00%	3,075,000	-	635,000	2,440,000
Municipal Purpose Bonds of 2010.....	2018	1,500,000	3.97%	1,250,000	-	250,000	1,000,000
Municipal Purpose Bonds of 2011.....	2031	2,932,000	2.00 - 4.75%	2,932,000	-	217,000	2,715,000
Total Governmental.....				\$ 12,137,525	\$ -	\$ 1,687,800	\$ 10,449,725

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

Year	Principal	Interest	Total
2013.....	\$ 1,237,807	\$ 367,999	\$ 1,605,806
2014.....	1,205,115	328,002	1,533,117
2015.....	1,039,730	289,956	1,329,686
2016.....	1,032,038	254,177	1,286,215
2017.....	1,026,654	220,099	1,246,753
2018.....	944,981	184,770	1,129,751
2019.....	511,135	155,539	666,674
2020.....	511,135	136,701	647,836
2021.....	506,130	117,838	623,968
2022.....	445,000	98,906	543,906
2023.....	445,000	81,321	526,321
2024.....	380,000	63,939	443,939
2025.....	380,000	48,430	428,430
2026.....	155,000	32,557	187,557
2027.....	150,000	26,350	176,350
2028.....	150,000	20,050	170,050
2029.....	110,000	13,750	123,750
2030.....	110,000	9,212	119,212
2031.....	110,000	4,675	114,675
Total.....	\$ 10,449,725	\$ 2,454,271	\$ 12,903,996

**Bond Payable Schedule – Water Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Reductions	Outstanding at June 30, 2012
Water Treatment Facility.....	2028	\$ 4,132,000	2.38 - 5.00%	\$ 2,985,475	\$ -	\$ 219,585	\$ 2,765,890
Water.....	2013	79,490	3.90 - 5.11%	50,500	-	25,250	25,250
Surface Drain.....	2022	650,000	3.31 - 3.90%	234,000	-	50,000	184,000
MWPAT.....	2025	33,452,851	3.0 - 5.35%	21,941,008	-	1,587,273	20,353,735
Water Mains.....	2030	2,740,000	2.38 - 4.75%	2,307,000	-	137,000	2,170,000
Water Departmental Equipment.....	2020	1,742,000	2.38 - 4.75%	1,410,000	-	200,000	1,210,000
Engineering Services.....	2013	400,000	2.50 - 3.00%	260,000	-	130,000	130,000
Total Water.....				\$ 29,187,983	\$ -	\$ 2,349,108	\$ 26,838,875

Debt service requirements for principal and interest for the Water Enterprise Fund bonds payable in future fiscal years are as follows:

Year	Principal	Interest	Total
2013.....	\$ 2,413,696	\$ 1,213,317	\$ 3,627,013
2014.....	2,121,330	1,108,805	3,230,135
2015.....	1,984,318	1,031,143	3,015,461
2016.....	2,037,818	944,169	2,981,987
2017.....	2,087,417	843,905	2,931,322
2018.....	2,060,596	734,361	2,794,957
2019.....	2,079,796	634,048	2,713,844
2020.....	2,138,995	533,633	2,672,628
2021.....	2,128,599	431,990	2,560,589
2022.....	2,188,928	326,872	2,515,800
2023.....	2,143,128	220,591	2,363,719
2024.....	2,187,327	115,857	2,303,184
2025.....	541,927	50,831	592,758
2026.....	225,000	32,832	257,832
2027.....	225,000	22,582	247,582
2028.....	225,000	12,082	237,082
2029.....	25,000	1,566	26,566
2030.....	25,000	525	25,525
Total.....	\$ 26,838,875	\$ 8,259,107	\$ 35,097,982

**Bond Payable Schedule – Sewer Enterprise Fund**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Reductions	Outstanding at June 30, 2012
Sewer.....	2031	\$ 21,155,510	3.00 - 5.37%	\$ 15,749,500	\$ -	\$ 1,314,750	\$ 14,434,750
Sewer Refunding.....	2018	6,798,077	2.00 - 4.01%	3,430,000	-	754,615	2,675,385
MWPAT.....	2031	9,527,457	2.00%	9,527,457	-	617,504	8,909,953
Sewer Treatment Facility.....	2030	6,530,000	2.50 - 4.20%	6,180,000	-	340,000	5,840,000
Total Sewer.....				\$ 34,886,957	\$ -	\$ 3,026,869	\$ 31,860,088

The difference between the debt outstanding per the schedule above and the total aggregate principal payments to be made per the schedule below relates to a deferred loss on a prior debt refunding in the amount of \$231,720 that has been capitalized and is being amortized over the life of the new debt.

Debt service requirements for principal and interest for the Sewer Enterprise Fund bonds payable in future fiscal years are as follows:

Year	Principal	Interest	Total
2013.....	\$ 2,652,587	\$ 1,008,068	\$ 3,660,655
2014.....	2,643,383	921,290	3,564,673
2015.....	2,486,780	837,070	3,323,850
2016.....	2,477,646	756,391	3,234,037
2017.....	2,331,368	677,560	3,008,928
2018.....	2,147,568	601,235	2,748,803
2019.....	2,010,091	528,934	2,539,025
2020.....	2,013,944	457,744	2,471,688
2021.....	1,581,941	393,808	1,975,749
2022.....	1,591,154	337,707	1,928,861
2023.....	1,600,554	280,723	1,881,277
2024.....	1,235,142	227,109	1,462,251
2025.....	1,244,924	185,720	1,430,644
2026.....	979,903	150,409	1,130,312
2027.....	990,083	121,585	1,111,668
2028.....	1,000,468	92,179	1,092,647
2029.....	1,011,063	62,360	1,073,423
2030.....	921,872	33,914	955,786
2031.....	707,897	-	707,897
Total.....	\$ 31,628,368	\$ 7,673,806	\$ 39,302,174

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Future subsidies of capital expenses are structured as principal subsidies of principal payments. Interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in repayment of this future debt. Future principal subsidies of \$5,262,707 have been recorded as an intergovernmental receivable in the water enterprise fund. Future interest subsidies total \$4,639,818 and will be recognized as revenue when received. During fiscal year 2012, the Town's principal and interest subsidy amounted to approximately \$999,000.

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 authorized and un-issued debt as follows:

Purpose	Date Authorized	Amount
Water treatment plant.....	05/03/01	\$ 426,999
Planning and land acquisition.....	05/25/06	500,000
Sewer.....	05/25/06	500,000
Town hall renovations.....	05/22/08	750,000
Water tank.....	10/21/08	85,300
Water.....	10/21/08	120,000
School feasibility.....	10/21/08	205,142
School building.....	10/06/09	17,902,649
Sewer pump station improvements.....	10/05/10	3,345,000
Fire trucks.....	05/03/11	1,000,000
<b>Total.....</b>		<b>\$ 24,835,090</b>

Changes in Long-term Liabilities

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

<b>Governmental Activities</b>	Balance June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increase	Other Decrease	Balance June 30, 2012	Current Portion
Long-Term Bonds.....	\$ 12,137,525	\$ -	\$ (1,687,800)	\$ -	\$ -	\$ 10,449,725	\$ 1,237,807
Other Postemployment Benefits.....	31,843,000	-	-	23,499,000	(8,342,000)	47,000,000	-
Compensated Absences.....	3,156,000	-	-	1,096,000	(1,400,000)	2,852,000	1,252,000
<b>Total.....</b>	<b>\$ 47,136,525</b>	<b>\$ -</b>	<b>\$ (1,687,800)</b>	<b>\$ 24,595,000</b>	<b>\$ (9,742,000)</b>	<b>\$ 60,301,725</b>	<b>\$ 2,489,807</b>
<b>Business-Type Activities</b>	Balance June 30, 2011	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increase	Other Decrease	Balance June 30, 2012	Current Portion
Long-Term Bonds.....	\$ 64,074,940	\$ -	\$ (5,375,977)	\$ -	\$ -	\$ 58,698,963	\$ 5,066,283
Deferred Loss on Refunding.....	(260,685)	-	-	-	28,965	(231,720)	(28,965)
Other Postemployment Benefits.....	2,479,000	-	-	1,160,000	(306,000)	3,333,000	-
Compensated Absences.....	628,000	-	-	175,000	(266,000)	537,000	244,000
<b>Total.....</b>	<b>\$ 66,921,255</b>	<b>\$ -</b>	<b>\$ (5,375,977)</b>	<b>\$ 1,335,000</b>	<b>\$ (543,035)</b>	<b>\$ 62,337,243</b>	<b>\$ 5,281,318</b>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The intention of the GASB 54 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.

At June 30, 2012, \$6,296,688 has been set aside in a stabilization fund that is classified as part of the general fund in the governmental funds financial statements. Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes on an as needed basis. 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. During fiscal year 2012, \$1,373,593 was transferred into the stabilization fund from the general fund. Also, the fund recognized interest and investment earnings of \$123,000. The stabilization fund balance can be used for general and/or capital purposes upon approval of Town Meeting. Additions to and withdrawals from the funds can only be made upon Town Meeting approval.

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. The Town's highest level of decision making authority is the Town Meeting.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose

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

	GOVERNMENTAL FUNDS			
	General	MSBA Parker School	Nonmajor Governmental Funds	Total Governmental Funds
<b>FUND BALANCES</b>				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,536,431	\$ 1,536,431
Restricted for:				
Town revolving funds.....	-	-	365,736	365,736
Town state grant funds.....	-	-	147,543	147,543
Town receipts reserved.....	-	-	2,162,572	2,162,572
School lunch.....	-	-	237,008	237,008
School revolving funds.....	-	-	1,068,927	1,068,927
School grant funds.....	-	-	1,015,227	1,015,227
Recreation revolving.....	-	-	10,573	10,573
Other special revenue.....	-	-	922,495	922,495
Town capital projects.....	-	-	352,989	352,989
School capital projects.....	-	-	1,653,849	1,653,849
Cemetery perpetual care.....	-	-	36,712	36,712
Assigned to:				
General government.....	187,315	-	-	187,315
Public safety.....	74,981	-	-	74,981
Education.....	1,415,128	-	-	1,415,128
Public works.....	49,681	-	-	49,681
Human services.....	6,119	-	-	6,119
Culture and recreation.....	1,308	-	-	1,308
Employee benefits.....	90,050	-	-	90,050
Capital outlay.....	201,000	-	-	201,000
Unassigned.....	<u>20,470,862</u>	<u>(12,004,169)</u>	<u>(2,280,018)</u>	<u>6,186,675</u>
<b>TOTAL FUND BALANCES (DEFICIT).....</b>	<b>\$ <u>22,496,444</u></b>	<b>\$ <u>(12,004,169)</u></b>	<b>\$ <u>7,230,044</u></b>	<b>\$ <u>17,722,319</u></b>

## NOTE 9 – RISK FINANCING

The Town is self-insured for portions of its workers' compensation and its health insurance activities. The health insurance activities are accounted for in the internal service fund. The workers' compensation activities are accounted for in the general fund.

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.

*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. The Town participates in a premium-based health care plan for its active and eligible retired employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town estimates its' Incurred But Not Reported (IBNR) health claims based on historical and current claim payment analysis. 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 \$1,239,000.

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 2011..... \$	1,007,000	\$ (15,094,180)	\$ 15,224,180	\$ 1,137,000
Fiscal Year 2012.....	1,137,000	(17,199,515)	17,301,515	1,239,000

*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 firefighter's worker's compensation is not material at June 30, 2012, and is therefore not reported.

**NOTE 10 – PENSION PLAN**

*Plan Description* - The Town contributes to the Middlesex County Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board (the Board). Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth's Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$15,894,475 for the fiscal year ended June 30, 2012, and accordingly, are reported in the General Fund as intergovernmental revenues and pension benefit 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 Board and are funded by the system. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, MA 01865.

*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 contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town’s contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$7,568,961, \$6,891,684, and \$6,352,561, respectively, which equaled its required contribution for each fiscal year.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic 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 liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town’s proportionate share of the plan’s annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

At June 30, 2012, the Plan’s membership consisted of the following:

Active members.....	1,041
Retirees, Disabled, Survivors and beneficiaries.....	<u>1,000</u>
Total.....	<u><u>2,041</u></u>

*Funding Policy* – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 90% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10% percent of their premium costs.

*Annual OPEB Cost and Net OPEB Obligation* – The Town’s annual other post-employment 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.....	\$ 24,679,000
Interest on net OPEB obligation.....	1,373,000
Adjustments to annual required contribution.....	<u>(1,393,000)</u>
Annual OPEB cost (expense).....	24,659,000
Contributions made.....	<u>(8,648,000)</u>
Increase/(Decrease) in net OPEB obligation.....	16,011,000
Net OPEB obligation - beginning of year, (as restated).....	<u>34,322,000</u>
Net OPEB obligation - end of year.....	<u>\$ 50,333,000</u>

The Net OPEB obligation at the beginning of the year was previously understated by \$1,387,000. This understatement was discovered by management during the current year and is attributable to certain participants that were not included in the prior actuarial valuation. Accordingly, an adjustment has been made in this report to restate net assets of the Primary Government as of June 30, 2012 from \$124,851,385 to \$123,464,385.

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	\$ 24,659,000	35%	\$ 50,333,000
6/30/2011	21,129,000	41%	34,322,000
6/30/2010	19,534,000	41%	21,933,000
6/30/2009	18,058,000	42%	10,468,000

*Funded Status and Funding Progress* – As of January 1, 2012, the most recent actuarial valuation date, the following actuarial information is as follows:

#### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
1/1/2012	\$ -	\$ 279,118,000	\$ 279,118,000	0.0%	\$ N/A	N/A
1/1/2009	-	233,836,000	233,836,000	0.0%	65,751,000	355.6%

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 January 1, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.00% 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 11% initially, graded to 5% over 10 years. The UAAL is being amortized over a 30 year period. The remaining amortization period at June 30, 2012 is 29 years.

#### **NOTE 12 – COMMITMENTS**

The Commonwealth of Massachusetts has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Business Authority (MSBA), provides resources to fund school construction under a grant program. The program is for all new construction where the Town submits grant reimbursement requests as the construction occurs. The Town is currently constructing a new Parker Elementary School which will cost approximately \$34,000,000 to build. The MSBA has approved grant funding of approximately \$19,000,000, which represents a 56% reimbursement rate of eligible costs.

Through the end of FY2012 the Town has expended approximately \$22.9 million and has received approximately \$11.5 million in construction grant reimbursements. At year end, an additional \$1.3 million in reimbursable construction costs has been submitted to the MSBA for approval and actual reimbursement. Since the Town has met its obligations under the grant agreement, the entire \$1.3 million has been included as a receivable in the governmental fund financial statements.

The Town is also currently committed to expend \$7.5 million relative to expansions to the Wastewater Treatment Facility, \$3.5 million in pumping station improvements, as well as \$7.0 million to complete other various sewer projects.

#### **NOTE 13 – 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 14 – 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.
- GASB 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. Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements:

- 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.

# ***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		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 94,246,638	\$ 94,481,138	\$ 94,551,166	\$ -	\$ 70,028
Tax liens.....	-	-	928,497	-	928,497
Motor vehicle excise tax.....	4,400,000	4,400,000	5,064,186	-	664,186
Hotel/motel tax.....	600,000	600,000	563,694	-	(36,306)
Charges for services.....	6,900,000	6,900,000	7,877,231	-	977,231
Penalties and interest on taxes.....	425,000	425,000	310,391	-	(114,609)
Fees.....	1,300,000	1,300,000	2,645,882	-	1,345,882
Licenses and permits.....	600,000	600,000	1,009,237	-	409,237
Intergovernmental.....	23,130,743	23,130,743	23,174,411	-	43,668
Departmental and other.....	885,000	885,000	952,196	-	67,196
Investment income.....	200,000	200,000	266,546	-	66,546
<b>TOTAL REVENUES.....</b>	<b>132,687,381</b>	<b>132,921,881</b>	<b>137,343,437</b>	<b>-</b>	<b>4,421,556</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	4,434,195	4,539,195	4,037,315	187,315	314,565
Public safety.....	15,602,337	15,742,337	15,221,466	74,981	445,890
Education.....	58,103,994	58,103,994	56,645,117	1,415,128	43,749
Public works.....	14,317,883	14,321,883	13,565,124	49,681	707,078
Public works - prior year snow and ice deficit.....	911,498	911,498	-	-	911,498
Human services.....	1,146,127	1,275,627	1,255,926	6,119	13,582
Culture and recreation.....	1,706,068	1,707,068	1,685,951	1,308	19,809
Pension benefits.....	7,648,242	7,648,242	7,568,961	-	79,281
Employee benefits.....	14,167,640	14,105,140	13,852,778	90,050	162,312
Building Insurance.....	1,020,000	957,500	930,604	-	26,896
State and county charges.....	5,526,535	5,526,535	5,320,389	-	206,146
Capital outlay.....	391,528	391,528	184,729	201,000	5,799
Debt service:					
Principal.....	6,566,333	6,566,333	6,560,511	-	5,822
Interest.....	2,499,956	2,479,956	2,262,468	-	217,488
<b>TOTAL EXPENDITURES.....</b>	<b>134,042,336</b>	<b>134,276,836</b>	<b>129,091,339</b>	<b>2,025,582</b>	<b>3,159,915</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,354,955)</b>	<b>(1,354,955)</b>	<b>8,252,098</b>	<b>(2,025,582)</b>	<b>7,581,471</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Use of prior year fund balance.....	-	4,898,593	-	-	(4,898,593)
Use of prior year fund balance to fund carryovers.....	1,051,552	1,051,552	-	-	(1,051,552)
Transfers in.....	303,403	303,403	392,125	-	88,722
Transfers out.....	-	(4,898,593)	(4,898,593)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,354,955</b>	<b>1,354,955</b>	<b>(4,506,468)</b>	<b>-</b>	<b>(5,861,423)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>-</b>	<b>-</b>	<b>3,745,630</b>	<b>(2,025,582)</b>	<b>1,720,048</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>17,962,343</b>	<b>13,161,826</b>	<b>13,161,826</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 17,962,343</b>	<b>\$ 13,161,826</b>	<b>\$ 16,907,456</b>	<b>\$ (2,025,582)</b>	<b>\$ 1,720,048</b>

See notes to required supplementary information.

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

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

**Middlesex County Contributory Retirement System  
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)
1/1/10	\$ 819,987,914	\$ 1,743,581,707	\$ 923,593,793	47.0%	\$ 384,598,692	240.1%
1/1/08	774,863,669	1,529,806,307	754,942,638	50.7%	360,206,302	209.6%
1/1/06	653,156,866	1,364,582,969	711,426,103	47.9%	330,999,861	214.9%
1/1/04	618,163,380	1,223,828,127	605,664,747	50.5%	306,025,949	197.9%
1/1/02	599,699,143	1,020,828,178	421,129,035	58.7%	280,740,439	150.0%
1/1/00	570,263,467	905,280,472	335,017,005	63.0%	253,228,818	132.3%
1/1/98	476,708,969	763,093,878	286,384,909	62.5%	215,380,186	133.0%
1/1/96	373,750,361	634,920,488	261,170,127	58.9%	218,345,024	119.6%

The Town's share of the UAAL, as of January 1, 2010, is approximately \$94.6 million.

See notes to required supplementary information.

**Middlesex County Contributory Retirement System  
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Town of Billerica	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2011	\$ 79,640,599	\$ 79,640,599	100%	\$ 7,568,961	9.50%
2010	76,243,557	76,243,557	100%	6,891,684	9.04%
2009	72,671,595	72,671,595	100%	6,352,561	8.74%
2008	71,233,749	71,233,749	100%	5,667,683	7.96%
2007	64,664,829	64,664,829	100%	5,205,872	8.05%
2006	60,169,717	60,169,717	100%	4,609,124	7.66%
2005	52,298,150	52,298,150	100%	3,970,636	7.59%

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

See notes to required supplementary information.

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

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

The Schedule of Employer Contributions presents the employer's required and actual contributions to the plan as well as the total contributions to the plan.

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

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2012	\$ -	\$ 279,117,655	\$ 279,117,655	0%	\$ 67,242,000	N/A
1/1/2009	-	233,836,000	233,836,000	0%	65,751,000	355.6%

**Schedule of Employer Contributions**

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2012	\$ 24,679,928	\$ 8,648,055	35%
6/30/2011	21,058,524	8,738,829	41%
6/30/2010	19,487,734	8,068,853	41%
6/30/2009	18,058,534	7,590,797	42%

See notes to required supplementary information.

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

FISCAL YEAR ENDED JUNE 30, 2012

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Actuarial Methods:

Valuation date.....	January 1, 2012
Actuarial cost method.....	Projected unit credit cost method
Amortization method.....	30 years
Remaining amortization period.....	30 years

Actuarial Assumptions:

Investment rate of return.....	4.00%
Medical/drug cost trend rate.....	11% initially, graded to 5% over 10 years

Plan Membership:

Current retirees, beneficiaries, and dependents....	1,041
Current active members.....	<u>1,000</u>
Total.....	<u><u>2,041</u></u>

See notes to required supplementary information.

**NOTE A – BUDGETARY BASIS OF ACCOUNTING**A. Budgetary Information

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

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

The majority of the Town's 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 Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Representatives.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget authorized \$134.0 million in appropriations and other amounts to be raised, as well as \$1.1 million in encumbrances and carryforwards from the prior year. During fiscal year 2012, the original budget was increased by \$5.1 million caused by a free cash use of \$4.9 million in transfers out to fund capital projects and \$234,000 in supplemental appropriations, raised through the tax rate. The amount raised through the tax rate mainly affected the general government and public safety functions.

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

B. Budgetary - GAAP Reconciliation

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

Net change in fund balance - budgetary basis.....	\$	3,745,630
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		1,496,171
<u>Basis of accounting differences:</u>		
Increase in revenues due to on-behalf payments.....		15,894,475
Increase in expenditures due to on-behalf payments.....		(15,894,475)
Net change in revenues in recording 60 day receipts.....		134,000
Net change in recording tax refunds payable.....		57,000
		<u>57,000</u>
Net change in fund balance - GAAP basis.....	\$	<u>5,432,801</u>

**NOTE B – PENSION PLAN**

The Town contributes to the Middlesex County Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Middlesex Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

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

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

- Valuation Date..... January 1, 2010
- Actuarial Cost Method..... Entry Age Normal Cost Method
- Amortization Method..... Level dollar for 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability.
- Remaining Amortization Period..... 25 years remaining as of January 1, 2010 except:  
 9 years remaining for 2002 ERI liability  
 10 years remaining for 2003 ERI liability
- Asset Valuation Method..... The actuarial value of assets is determined by projecting the actuarial value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.125%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is the applied to recognize the difference between the actual investment return and the expected return over a five year period.

Actuarial Assumptions:

- Investment rate of return..... 8.125%
- Projected salary increases..... 4.75% for Group 1 and 5.25% for Group 4
- Cost of living adjustments..... 3.0% for the first \$12,000 of retirement income, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	4,833
Terminated participants entitled to a return of their employee contributions.....	2,994
Terminated participants with a vested right to a deferred or immediate benefit.....	232
Active participants.....	<u>8,946</u>
 Total.....	 <u><u>17,005</u></u>

**NOTE C – OTHER POST-EMPLOYMENT 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 health insurance plan, which covers both active and retired members, including teachers.

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

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions to the plan as a whole.

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 the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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