

TOWN OF WATERTOWN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Town Manager and Town Council
Town of Watertown, Massachusetts

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

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

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

In accordance with *Government Auditing Standards*, we have issued our report dated February 1, 2013 on our consideration of the Town of Watertown's internal

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control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and Schedule of Funding Progress 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The information appearing on pages 51 and 52 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melanson, Heath + Company P.C.

February 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a 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, education, public safety, public works, human services, recreation, and libraries. The business-type activities include water and sewer activities.

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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 93,924,430 (i.e., net assets), a change of \$ 594,381 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 27,602,429, a change of \$ 5,227,013 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 9,630,553, a change of \$ 2,697,064 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 43,092,868, a change of \$ (1,607,449) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 40,025	\$ 36,026	\$ 17,039	\$ 17,932	\$ 57,064	\$ 53,958
Capital assets	<u>101,632</u>	<u>101,697</u>	<u>6,053</u>	<u>4,315</u>	<u>107,685</u>	<u>106,012</u>
Total assets	141,657	137,723	23,092	22,247	164,749	159,970
Long-term liabilities outstanding	55,635	51,432	3,677	3,733	59,312	55,165
Other liabilities	<u>10,978</u>	<u>10,998</u>	<u>534</u>	<u>477</u>	<u>11,512</u>	<u>11,475</u>
Total liabilities	66,613	62,430	4,211	4,210	70,824	66,640
Net assets:						
Invested in capital assets, net	66,365	64,529	5,293	4,414	71,658	68,943
Restricted	5,905	5,291	-	-	5,905	5,291
Unrestricted	<u>2,774</u>	<u>5,473</u>	<u>13,588</u>	<u>13,623</u>	<u>16,362</u>	<u>19,096</u>
Total net assets	<u>\$ 75,044</u>	<u>\$ 75,293</u>	<u>\$ 18,881</u>	<u>\$ 18,037</u>	<u>\$ 93,925</u>	<u>\$ 93,330</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,464	\$ 6,935	\$ 14,210	\$ 13,929	\$ 21,674	\$ 20,864
Operating grants and contributions	14,356	13,938	-	-	14,356	13,938
Capital grants and contributions	890	2,450	243	-	1,133	2,450
General revenues:						
Property taxes (including penalties and interest)	75,112	71,409	-	-	75,112	71,409
Excises	3,250	3,268	-	-	3,250	3,268
Penalties and interest on taxes	2,855	2,780	-	-	2,855	2,780
Grants and contributions not restricted to specific programs	8,652	8,877	-	-	8,652	8,877
Investment income	67	99	23	35	90	134
Other	2,868	1,261	8	9	2,876	1,270
Total revenues	<u>115,514</u>	<u>111,017</u>	<u>14,484</u>	<u>13,973</u>	<u>129,998</u>	<u>124,990</u>
Expenses:						
General government	5,546	5,492	-	-	5,546	5,492
Public safety	18,894	18,441	-	-	18,894	18,441
Education	45,519	44,843	-	-	45,519	44,843
Public works	9,731	9,387	-	-	9,731	9,387
Human services	1,080	1,072	-	-	1,080	1,072
Culture and recreation	4,109	4,964	-	-	4,109	4,964
Employee benefits	29,797	29,115	-	-	29,797	29,115
Intergovernmental	2,207	2,143	-	-	2,207	2,143
Interest on long-term debt	1,313	1,530	-	-	1,313	1,530
Miscellaneous	125	68	-	-	125	68
Water services	-	-	4,053	4,078	4,053	4,078
Sewer services	-	-	7,029	6,313	7,029	6,313
Total expenses	<u>118,321</u>	<u>117,055</u>	<u>11,082</u>	<u>10,391</u>	<u>129,403</u>	<u>127,446</u>
Change in net assets before transfers	(2,807)	(6,038)	3,402	3,582	595	(2,456)
Transfers in (out)	<u>2,558</u>	<u>2,496</u>	<u>(2,558)</u>	<u>(2,496)</u>	<u>-</u>	<u>-</u>
Change in net assets	(249)	(3,542)	844	1,086	595	(2,456)
Net assets - beginning of	<u>75,293</u>	<u>78,835</u>	<u>18,037</u>	<u>16,951</u>	<u>93,330</u>	<u>95,786</u>
Net assets - end of year	<u>\$ 75,044</u>	<u>\$ 75,293</u>	<u>\$ 18,881</u>	<u>\$ 18,037</u>	<u>\$ 93,925</u>	<u>\$ 93,330</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 93,924,430, a change of \$ 594,381 from the prior year. The largest portion of net assets \$ 71,657,919 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 5,904,849 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 16,361,662 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (249,253). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 4,174,171
Nonmajor funds - accrual basis	3,062,797
Depreciation expense in excess of principal debt service	(938,705)
Accrued other post-employment benefits	(6,162,028)
MSBA receipt	(913,208)
Other GAAP accruals	<u>527,720</u>
Total	<u>\$ (249,253)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 843,634. Key elements of this change are as follows:

Water operations	\$ 410,545
Sewer operations	<u>433,089</u>
Total	<u>\$ 843,634</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved 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 \$ 27,602,429, a change of \$ 5,227,013 in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ 4,174,171
Nonmajor fund deficit	<u>1,052,842</u>
Total	<u>\$ 5,227,013</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 9,630,553, while total fund balance was \$ 17,494,342. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 9,630,553	\$ 6,933,489	\$ 2,697,064	9.3%
Total fund balance	17,494,342	13,320,171	4,174,171	17.0%

The total fund balance of the general fund changed by \$ 4,174,171 during the current fiscal year. Key factors in this change are as follows:

Revenue surplus	\$ 1,051,663
Appropriation turnbacks by departments	1,850,170
Property tax collection exceeding net tax levy	954,488
Current year encumbrances to be spent in the subsequent year, over prior year encumbrances to be sent in the current year	451,068
Use of free cash as a funding source	(1,750,000)
Change in stabilization	1,707,076
Other reclassifications	<u>(90,294)</u>
Total	<u>\$ 4,174,171</u>

Included in the total general fund balance are the Town's stabilization accounts with the following balances:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
Stabilization	\$ 1,224,655	\$ 1,213,615	\$ 11,040
Capital Project Stabilization	1,501,623	557,865	943,758
OPEB Stabilization	1,077,724	1,075,446	2,278
Unfunded Pension Stabilization	<u>750,000</u>	<u>-</u>	<u>750,000</u>
Total	<u>\$ 4,554,002</u>	<u>\$ 2,846,926</u>	<u>\$ 1,707,076</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 13,588,072, a change of \$ (35,039) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 1,210,000. Major reasons for these amendments include:

- \$ 562,499 increase in the Town Council Reserve Fund
- \$ 34,100 increase in other general government appropriations
- \$ (400) decrease in intergovernmental appropriations
- \$ 12,000 increase in culture and recreation
- \$ 601,801 increase in transfers

Of this increase, \$ 179,403 was funded from property taxes, \$ 3,044 from PILOT, \$ 1,009,733 from miscellaneous revenues, \$ 34,100 from transfers from other funds, and a \$ (16,280) reduction in state aid.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 107,685,453 (net of accumulated depreciation), a change of \$ 1,673,417 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- Victory Field improvements of \$ 2,079,121
- Ongoing street and sidewalk improvements of \$ 2,579,857
- Water mains of \$ 773,208

Additional information on capital assets can be found in the Notes to the Financial Statements.

Change in credit rating. The Town of Watertown maintains an “Aa3” rating from Moody’s for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 43,092,868, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

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

Town Manager
Town of Watertown, Massachusetts
149 Main Street
Watertown, Massachusetts 02472

TOWN OF WATERTOWN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 30,023,856	\$ 13,518,679	\$ 43,542,535
Investments	2,586,278	-	2,586,278
Receivables, net of allowance for uncollectibles:			
Property taxes	1,025,179	-	1,025,179
Excises	261,153	-	261,153
User fees	-	3,519,992	3,519,992
Charges for services	10,647	-	10,647
Intergovernmental	913,208	-	913,208
Other assets	52,500	-	52,500
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	375,589	-	375,589
Intergovernmental	4,566,040	-	4,566,040
Other assets	210,000	-	210,000
Capital assets:			
Land and construction in progress	7,818,748	-	7,818,748
Other capital assets, net of accumulated depreciation	93,813,400	6,053,305	99,866,705
TOTAL ASSETS	141,656,598	23,091,976	164,748,574
LIABILITIES			
Current:			
Warrants payable	1,699,249	-	1,699,249
Accounts payable	165,612	-	165,612
Accrued liabilities	1,082,711	-	1,082,711
Tax refunds payable	730,764	32,098	762,862
Taxes paid in advance	77,890	-	77,890
Notes payable	1,250,000	-	1,250,000
Other current liabilities	373,927	-	373,927
Current portion of long-term liabilities:			
Bonds payable	5,485,000	502,424	5,987,424
Compensated absences	113,451	-	113,451
Noncurrent:			
Bonds payable, net of current portion	33,880,000	3,225,444	37,105,444
Compensated absences, net of current portion	2,155,564	-	2,155,564
Accrued other post-employment benefits	19,598,501	451,509	20,050,010
TOTAL LIABILITIES	66,612,669	4,211,475	70,824,144
NET ASSETS			
Invested in capital assets, net of related debt	66,365,490	5,292,429	71,657,919
Restricted for:			
Grants and other statutory restrictions	4,561,699	-	4,561,699
Permanent funds:			
Nonexpendable	985,986	-	985,986
Expendable	357,164	-	357,164
Unrestricted	2,773,590	13,588,072	16,361,662
TOTAL NET ASSETS	\$ 75,043,929	\$ 18,880,501	\$ 93,924,430

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 5,545,581	\$ 928,788	\$ 212,001	\$ 890,374	\$ (3,514,418)	\$ -	\$ (3,514,418)
Public safety	18,893,963	3,163,201	339,455	-	(15,391,307)	-	(15,391,307)
Education	45,519,517	2,373,906	13,188,290	-	(29,957,321)	-	(29,957,321)
Public works	9,730,870	130,092	104,288	-	(9,496,490)	-	(9,496,490)
Health and human services	1,079,958	87,373	200,816	-	(791,769)	-	(791,769)
Culture and recreation	4,108,935	780,798	311,235	-	(3,016,902)	-	(3,016,902)
Employee benefits	29,797,601	-	-	-	(29,797,601)	-	(29,797,601)
Intergovernmental	2,207,333	-	-	-	(2,207,333)	-	(2,207,333)
Interest	1,312,808	-	-	-	(1,312,808)	-	(1,312,808)
Miscellaneous	124,849	-	-	-	(124,849)	-	(124,849)
Total Governmental Activities	118,321,415	7,464,158	14,356,085	890,374	(95,610,798)	-	(95,610,798)
Business-Type Activities:							
Water services	4,053,665	5,758,022	-	-	-	1,704,357	1,704,357
Sewer services	7,028,812	8,452,225	-	243,000	-	1,666,413	1,666,413
Total Business-Type Activities	11,082,477	14,210,247	-	243,000	-	3,370,770	3,370,770
Total	\$ 129,403,892	\$ 21,674,405	\$ 14,356,085	\$ 1,133,374	(95,610,798)	3,370,770	(92,240,028)
General Revenues and Transfers:							
Property taxes					75,112,132	-	75,112,132
Excises					3,250,168	-	3,250,168
Penalties, interest and other taxes					2,854,453	-	2,854,453
Grants and contributions not restricted to specific programs					8,651,423	-	8,651,423
Investment income					66,830	23,192	90,022
Miscellaneous					2,868,376	7,835	2,876,211
Transfers, net					2,558,163	(2,558,163)	-
Total general revenues and transfers					95,361,545	(2,527,136)	92,834,409
Change in Net Assets					(249,253)	843,634	594,381
Net Assets:							
Beginning of year					75,293,182	18,036,867	93,330,049
End of year					\$ 75,043,929	\$ 18,880,501	\$ 93,924,430

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 20,027,392	\$ 9,996,464	\$ 30,023,856
Investments	1,224,655	1,361,623	2,586,278
Receivables:			
Property taxes	1,570,557	-	1,570,557
Excises	381,594	-	381,594
Departmental	<u>56,555</u>	<u>-</u>	<u>56,555</u>
TOTAL ASSETS	<u>\$ 23,260,753</u>	<u>\$ 11,358,087</u>	<u>\$ 34,618,840</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 1,699,249	\$ -	\$ 1,699,249
Accounts payable	165,612	-	165,612
Accrued liabilities	710,263	-	710,263
Deferred revenues	2,008,706	-	2,008,706
Tax refunds payable	730,764	-	730,764
Taxes paid in advance	77,890	-	77,890
Notes payable	-	1,250,000	1,250,000
Other liabilities	<u>373,927</u>	<u>-</u>	<u>373,927</u>
TOTAL LIABILITIES	5,766,411	1,250,000	7,016,411
Fund Balances:			
Nonspendable	-	985,986	985,986
Restricted	-	8,410,994	8,410,994
Committed	4,609,526	3,082,342	7,691,868
Assigned	3,254,263	-	3,254,263
Unassigned	<u>9,630,553</u>	<u>(2,371,235)</u>	<u>7,259,318</u>
TOTAL FUND BALANCES	<u>17,494,342</u>	<u>10,108,087</u>	<u>27,602,429</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,260,753</u>	<u>\$ 11,358,087</u>	<u>\$ 34,618,840</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND
 BALANCES TO NET ASSETS OF GOVERNMENTAL
 ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total governmental fund balances	\$	27,602,429
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 		101,632,148
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 		1,672,568
<ul style="list-style-type: none"> • Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds. 		5,741,748
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 		(372,448)
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. 		<u>(61,232,516)</u>
Net assets of governmental activities	\$	<u><u>75,043,929</u></u>

See notes to financial statements.

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

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 75,093,524	\$ -	\$ 75,093,524
Excise taxes	3,266,136	-	3,266,136
Penalties, interest and other taxes	2,854,453	-	2,854,453
Charges for services	2,920,617	2,963,428	5,884,045
Intergovernmental	18,603,549	5,591,506	24,195,055
Licenses and permits	208,173	-	208,173
Departmental	-	398,901	398,901
Fines and forfeitures	981,606	-	981,606
Investment income	61,570	5,260	66,830
Contributions	-	616,035	616,035
Miscellaneous	1,753,092	1,115,283	2,868,375
Total Revenues	<u>105,742,720</u>	<u>10,690,413</u>	<u>116,433,133</u>
Expenditures:			
Current:			
General government	4,120,000	884,345	5,004,345
Public safety	14,706,360	1,768,753	16,475,113
Education	34,139,940	6,116,106	40,256,046
Public works	7,791,041	2,946,679	10,737,720
Health and human services	856,921	133,874	990,795
Culture and recreation	2,775,489	2,567,804	5,343,293
Pension	17,596,557	-	17,596,557
Employee benefits	12,201,043	-	12,201,043
Miscellaneous	124,849	-	124,849
Debt service	6,549,189	-	6,549,189
Intergovernmental	2,207,333	-	2,207,333
Total Expenditures	<u>103,068,722</u>	<u>14,417,561</u>	<u>117,486,283</u>
Excess (deficiency) of revenues over expenditures	2,673,998	(3,727,148)	(1,053,150)
Other Financing Sources (Uses):			
Bond issuance	-	3,722,000	3,722,000
Transfers in	3,037,263	1,976,844	5,014,107
Transfers out	(1,537,090)	(918,854)	(2,455,944)
Total Other Financing Sources (Uses)	<u>1,500,173</u>	<u>4,779,990</u>	<u>6,280,163</u>
Change in fund balance	4,174,171	1,052,842	5,227,013
Fund Equity, at Beginning of Year	<u>13,320,171</u>	<u>9,055,245</u>	<u>22,375,416</u>
Fund Equity, at End of Year	<u>\$ 17,494,342</u>	<u>\$ 10,108,087</u>	<u>\$ 27,602,429</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2012

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 5,227,013																				
<ul style="list-style-type: none"> 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: <table> <tr> <td style="padding-left: 40px;">Capital outlay purchases</td> <td style="text-align: right;">6,056,932</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation</td> <td style="text-align: right;">(6,121,705)</td> </tr> </table> 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. <table> <tr> <td></td> <td style="text-align: right;">(5,927)</td> </tr> </table> Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table> <tr> <td></td> <td style="text-align: right;">(913,208)</td> </tr> </table> 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: <table> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">5,183,000</td> </tr> <tr> <td style="padding-left: 40px;">Issuance of debt</td> <td style="text-align: right;">(3,722,000)</td> </tr> <tr> <td style="padding-left: 40px;">Deferred charges on refunding amortization</td> <td style="text-align: right;">(52,500)</td> </tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td> <td style="text-align: right;">53,381</td> </tr> </table> 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. <table> <tr> <td style="padding-left: 40px;">Compensated absences</td> <td style="text-align: right;">207,789</td> </tr> <tr> <td style="padding-left: 40px;">OPEB liability</td> <td style="text-align: right;"><u>(6,162,028)</u></td> </tr> </table> 		Capital outlay purchases	6,056,932	Depreciation	(6,121,705)		(5,927)		(913,208)	Repayments of debt	5,183,000	Issuance of debt	(3,722,000)	Deferred charges on refunding amortization	(52,500)		53,381	Compensated absences	207,789	OPEB liability	<u>(6,162,028)</u>
Capital outlay purchases	6,056,932																				
Depreciation	(6,121,705)																				
	(5,927)																				
	(913,208)																				
Repayments of debt	5,183,000																				
Issuance of debt	(3,722,000)																				
Deferred charges on refunding amortization	(52,500)																				
	53,381																				
Compensated absences	207,789																				
OPEB liability	<u>(6,162,028)</u>																				
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(249,253)</u>																				

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 73,959,633	\$ 74,139,036	\$ 74,139,036	\$ -
Excise taxes	3,255,000	3,255,000	3,266,136	11,136
Interest, penalties, and other taxes	2,774,900	2,777,944	2,854,453	76,509
Charges for services	2,401,356	2,401,356	2,920,617	519,261
Intergovernmental	9,603,482	9,587,202	9,790,992	203,790
Licenses and permits	205,000	205,000	208,173	3,173
Fines and forfeitures	885,000	885,000	981,606	96,606
Interest earnings	100,000	100,000	46,295	(53,705)
Miscellaneous	548,466	1,558,199	1,753,092	194,893
Transfers in	3,503,163	3,537,263	3,537,263	-
Other sources	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>-</u>
Total Revenues and Other Sources	98,986,000	100,196,000	101,247,663	1,051,663
Expenditures and Other Uses:				
General government	4,973,538	4,785,942	4,422,369	363,573
Public safety	14,892,670	14,913,163	14,623,706	289,457
Education	34,140,000	34,140,000	34,139,940	60
Public works	8,908,650	8,632,860	7,821,723	811,137
Health and human services	886,221	933,709	862,284	71,425
Culture and recreation	2,772,059	2,825,058	2,799,853	25,205
Employee benefits	22,104,240	21,356,655	21,128,265	228,390
Debt service	7,163,595	6,603,595	6,549,189	54,406
Intergovernmental	2,211,777	2,211,377	2,207,333	4,044
Miscellaneous	64,750	64,750	62,277	2,473
Transfers out	<u>868,500</u>	<u>3,728,891</u>	<u>3,728,891</u>	<u>-</u>
Total Expenditures and Other Uses	<u>98,986,000</u>	<u>100,196,000</u>	<u>98,345,830</u>	<u>1,850,170</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,901,833</u>	\$ <u>2,901,833</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 3,597,219	\$ 9,921,460	\$ 13,518,679
User fees, net of allowance for uncollectibles	<u>1,360,259</u>	<u>2,159,733</u>	<u>3,519,992</u>
Total current assets	4,957,478	12,081,193	17,038,671
Noncurrent:			
Capital assets:			
Other capital assets, net of accumulated depreciation	<u>3,108,226</u>	<u>2,945,079</u>	<u>6,053,305</u>
Total noncurrent assets	<u>3,108,226</u>	<u>2,945,079</u>	<u>6,053,305</u>
TOTAL ASSETS	8,065,704	15,026,272	23,091,976
<u>LIABILITIES</u>			
Current:			
Refunds payable	32,098	-	32,098
Current portion of long-term liabilities:			
Bonds payable	<u>248,212</u>	<u>254,212</u>	<u>502,424</u>
Total current liabilities	280,310	254,212	534,522
Noncurrent:			
Bonds payable	2,040,876	1,184,568	3,225,444
Accrued other post-employment benefits	<u>314,169</u>	<u>137,340</u>	<u>451,509</u>
Total noncurrent liabilities	<u>2,355,045</u>	<u>1,321,908</u>	<u>3,676,953</u>
TOTAL LIABILITIES	2,635,355	1,576,120	4,211,475
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,463,597	3,828,832	5,292,429
Unrestricted	<u>3,966,752</u>	<u>9,621,320</u>	<u>13,588,072</u>
TOTAL NET ASSETS	<u>\$ 5,430,349</u>	<u>\$ 13,450,152</u>	<u>\$ 18,880,501</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ 5,758,022	\$ 8,452,225	\$ 14,210,247
Other	7,835	-	7,835
	<u>5,765,857</u>	<u>8,452,225</u>	<u>14,218,082</u>
Total Operating Revenues	5,765,857	8,452,225	14,218,082
Operating Expenses:			
Personnel expenses	873,552	347,459	1,221,011
Non-personnel	463,290	768,371	1,231,661
Intergovernmental assessments	2,658,769	5,542,951	8,201,720
Depreciation	20,666	332,643	353,309
	<u>4,016,277</u>	<u>6,991,424</u>	<u>11,007,701</u>
Total Operating Expenses	4,016,277	6,991,424	11,007,701
Operating Income	1,749,580	1,460,801	3,210,381
Nonoperating Revenues (Expenses):			
Intergovernmental revenue	-	243,000	243,000
Investment income	6,445	16,747	23,192
Interest expense	(37,388)	(37,388)	(74,776)
	<u>(30,943)</u>	<u>222,359</u>	<u>191,416</u>
Total Nonoperating Revenues (Expenses), Net	(30,943)	222,359	191,416
Income Before Transfers	1,718,637	1,683,160	3,401,797
Transfers:			
Transfers out	(1,308,092)	(1,250,071)	(2,558,163)
Change in Net Assets	410,545	433,089	843,634
Net Assets at Beginning of Year	<u>5,019,804</u>	<u>13,017,063</u>	<u>18,036,867</u>
Net Assets at End of Year	<u>\$ 5,430,349</u>	<u>\$ 13,450,152</u>	<u>\$ 18,880,501</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 5,749,981	\$ 8,459,827	\$ 14,209,808
Payments to vendors and employees	(1,235,439)	(1,069,785)	(2,305,224)
Payments to other governments	<u>(2,658,769)</u>	<u>(5,542,951)</u>	<u>(8,201,720)</u>
Net Cash Provided By Operating Activities	1,855,773	1,847,091	3,702,864
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers out	(1,308,092)	(1,250,071)	(2,558,163)
Intergovernmental receipt	<u>-</u>	<u>243,000</u>	<u>243,000</u>
Net Cash (Used For) Noncapital Financing Activities	(1,308,092)	(1,007,071)	(2,315,163)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets, net of disposals	(987,765)	(1,103,734)	(2,091,499)
Proceeds from issuance of bonds and notes	-	297,000	297,000
Interest expense	(37,388)	(37,388)	(74,776)
Principal payments on bonds and notes	<u>(248,636)</u>	<u>(194,813)</u>	<u>(443,449)</u>
Net Cash (Used for) Capital and Related Financing Activities	(1,273,789)	(1,038,935)	(2,312,724)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>6,445</u>	<u>16,747</u>	<u>23,192</u>
Net Cash Provided By Investing Activities	<u>6,445</u>	<u>16,747</u>	<u>23,192</u>
Net Change in Cash and Short-Term Investments	(719,663)	(182,168)	(901,831)
Cash and Short-Term Investments, Beginning of Year	<u>4,316,882</u>	<u>10,103,628</u>	<u>14,420,510</u>
Cash and Short-Term Investments, End of Year	<u>\$ 3,597,219</u>	<u>\$ 9,921,460</u>	<u>\$ 13,518,679</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating income	\$ 1,749,580	\$ 1,460,801	\$ 3,210,381
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	20,666	332,643	353,309
Changes in assets and liabilities:			
User fees	(15,876)	7,602	(8,274)
Other liabilities	<u>101,403</u>	<u>46,045</u>	<u>147,448</u>
Net Cash Provided By Operating Activities	<u>\$ 1,855,773</u>	<u>\$ 1,847,091</u>	<u>\$ 3,702,864</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Pension Trust Fund (As of <u>December 31, 2011</u>)	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 250,655	\$ 304,636	\$ (46,433)
Investments	91,937,745	22,536	-
Accounts receivable	<u>256,866</u>	<u>-</u>	<u>180,283</u>
Total Assets	92,445,266	327,172	133,850
<u>LIABILITIES AND NET ASSETS</u>			
Deferred revenue	-	-	180,283
Other liabilities	<u>11,460</u>	<u>-</u>	<u>(46,433)</u>
Total Liabilities	<u>11,460</u>	<u>-</u>	<u>133,850</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 92,433,806</u>	<u>\$ 327,172</u>	<u>\$ -</u>

See notes to financial statements.

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

	Pension Trust Fund (For the Year Ended December 31, 2011)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 8,965,000	\$ -
Other systems and Commonwealth of Massachusetts	329,731	-
Plan members	2,498,070	-
Other	55,630	13,620
Total contributions	11,848,431	13,620
Investment Income:		
Change in fair value of investments	(656,722)	858
Less: management fees	(487,491)	-
Net investment income	(1,144,213)	858
Total additions	10,704,218	14,478
Deductions:		
Benefit payments to plan members and beneficiaries	10,796,547	-
Refunds to plan members	185,515	-
Administrative expenses	317,263	-
Other	139,671	23,629
Total deductions	11,438,996	23,629
Net increase	(734,778)	(9,151)
Net assets:		
Beginning of year	93,168,584	336,323
End of year	\$ 92,433,806	\$ 327,172

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Watertown (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The Watertown Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 149 Main Street, Watertown, Massachusetts 02472.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants

and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter 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.

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*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- The *water fund* is used to report the Town's water enterprise fund operations.
- The *sewer fund* is used to report the Town's sewer enterprise fund operations.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in

the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds, and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$ 6,291.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	20 - 50
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure.

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

During the fiscal year, the Town Manager submits to the Town Council an operating budget for the proposed expenditures for the fiscal year commencing the following July 1st. The budget, as enacted by the Town Council, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year as required by changing conditions. Formal budgetary integration is employed as a management control device during the year for the General Fund. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's Code of Ordinances.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 105,742,720	\$ 103,068,722
Other financing sources/uses (GAAP basis)	<u>3,037,263</u>	<u>1,537,090</u>
Subtotal (GAAP Basis)	108,779,983	104,605,812
Adjust tax revenue to accrual basis	(954,488)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,303,195)
Add end-of-year appropriation carryforwards from expenditures	-	1,754,263
To record use of free cash	1,750,000	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(8,812,557)	(8,812,557)
To remove unbudgeted stabilization fund	484,725	2,191,801
To reverse other non-budgeted reclassifications	<u>-</u>	<u>(90,294)</u>
Budgetary basis	<u>\$ 101,247,663</u>	<u>\$ 98,345,830</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Special revenue funds:	
Community Partnerships	\$ 2,068
Academic Support	666
Coord Family Community Engagement	24,142
Early Childhood Development	1,386
LEP Title III	3,964
SPED 94-142	406,564
SPED Professional Development	1,085
Teacher Quality	14,803

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Title I	29,889
Pep Grant	48,464
WHYP Grant	46,964
Ed Jobs	10,961
Title III LEP carryover	1,764
Green Community Street Lights Grant	96,413
MAPC DPH Grant	1,540
FY12 Supp & Incentive Grant	47,044
Organized Crime Drug Revolving	87,819
Capital project funds	
Victory Field Renovation	1,191,616
Chapter 90 Orchard St. & Main St.	354,023
Chapter 90 Pavement Management	60
	<u>\$ 2,371,235</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2012 and December 31, 2011, \$ 26,775,834 and none of the Town's and System's bank balances of \$ 46,378,792 and \$ 508,555, respectively, were exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End Aaa</u>
U.S. Treasury notes	\$ 798	N/A	\$ -	\$ 798
Corporate equities	19	N/A	19	-
Mutual funds	513	N/A	513	-
Federal agency securities	<u>1,279</u>		<u>-</u>	<u>1,279</u>
Total investments	<u>\$ 2,609</u>		<u>\$ 532</u>	<u>\$ 2,077</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Presented below is the actual rating as of year-end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Corporate equities	\$ 13,040	N/A	\$ 13,040
Pooled domestic equities	12,000	N/A	12,000
Pooled international equities	12,425		12,425
Pooled global equity funds	13,520		13,520
Pooled domestic fixed income	18,406	N/A	18,406
Pooled global fixed income	2,558		2,558
Pooled alternative	3,157		3,157
Pooled real estate	8,656	N/A	8,656
PRIT Absolute	7,208		7,208
PRIT* fund	<u>968</u>		<u>968</u>
Total investments	<u>\$ 91,938</u>		<u>\$ 91,938</u>

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and System do not have policies for custodial credit risk.

All of the Town’s investments of \$ 2,608,814 are exposed to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC, excess SIPC, and by maintaining investments in the Town’s name.

All of the System’s investments of \$ 91,937,745 are exposed to custodial credit risk because the related securities are uninsured, unregistered and/or held by the System’s brokerage firm, which is also the Counterparty to the securities. The System manages this risk with investing in PRIT, having Securities Investor Protection Corporation (SIPC), excess SIPC coverage and because the assets are held in separately identifiable trust accounts.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Federal National Mtg. Assn.	\$ 791,418	30%
Federal Home Loan Mtg. Corp.	<u>379,159</u>	15%
Total	<u>\$ 1,170,577</u>	

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
U.S. Treasury notes	\$ 798	\$ -	\$ 798	\$ -	\$ -
Federal agency securities	<u>1,279</u>	<u>553</u>	<u>509</u>	<u>169</u>	<u>48</u>
Total	<u>\$ 2,077</u>	<u>\$ 553</u>	<u>\$ 1,307</u>	<u>\$ 169</u>	<u>\$ 48</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town and System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 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 a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2012 consist of the following (in thousands):

<u>Property Taxes:</u>		
Real Estate		
2012	\$ 991	
2011	(68)	
Prior	<u>(2)</u>	921
Personal Property		
2012	48	
2011	24	
2010	15	
2009	5	
2008	3	
Prior	<u>1</u>	96
Tax Liens		418
Deferred Taxes		<u>136</u>
Total Property Taxes		<u>\$ 1,571</u>
<u>Excise Taxes:</u>		
Motor Vehicle Excise		
2012	\$ 225	
2011	58	
2010	33	
2009	31	
2008	<u>31</u>	378
Boat Excise		<u>4</u>
Total Excise Taxes		<u>\$ 382</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 170	\$ -
Excises	\$ 120	\$ -
Utilities	\$ -	\$ 138
Other	\$ 46	\$ -

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures. Future receipt of MSBA payments are as follows:

2013	\$ 913,208
2014	913,208
2015	913,208
2016	913,208
2017 - 2019	<u>1,826,416</u>
Total	<u>\$ 5,479,248</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 105,321	\$ 3,189	\$ -	\$ 108,510
Machinery, equipment, and furnishings	4,648	532	-	5,180
Infrastructure	41,494	9,959	-	51,453
Vehicles	<u>8,764</u>	<u>570</u>	<u>(416)</u>	<u>8,918</u>
Total capital assets, being depreciated	160,227	14,250	(416)	174,061
Less accumulated depreciation for:				
Buildings and improvements	(37,868)	(3,932)	-	(41,800)
Machinery, equipment, and furnishings	(1,830)	(633)	-	(2,463)
Infrastructure	(28,296)	(1,020)	-	(29,316)
Vehicles	<u>(6,548)</u>	<u>(537)</u>	<u>416</u>	<u>(6,669)</u>
Total accumulated depreciation	<u>(74,542)</u>	<u>(6,122)</u>	<u>416</u>	<u>(80,248)</u>
Total capital assets, being depreciated, net	85,685	8,128	-	93,813
Capital assets, not being depreciated:				
Land	7,629	-	-	7,629
Construction in progress	<u>8,383</u>	<u>189</u>	<u>(8,382)</u>	<u>190</u>
Total capital assets, not being depreciated	<u>16,012</u>	<u>189</u>	<u>(8,382)</u>	<u>7,819</u>
Governmental activities capital assets, net	<u>\$ 101,697</u>	<u>\$ 8,317</u>	<u>\$ (8,382)</u>	<u>\$ 101,632</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery, equipment, and furnishings	\$ 1,718	\$ 257	\$ -	\$ 1,975
Infrastructure	10,874	3,083	-	13,957
Vehicles	<u>947</u>	<u>-</u>	<u>-</u>	<u>947</u>
Total capital assets, being depreciated	13,539	3,340	-	16,879
Less accumulated depreciation for:				
Machinery, equipment, and furnishings	(1,235)	(126)	-	(1,361)
Infrastructure	(8,905)	(119)	-	(9,024)
Vehicles	<u>(333)</u>	<u>(108)</u>	<u>-</u>	<u>(441)</u>
Total accumulated depreciation	<u>(10,473)</u>	<u>(353)</u>	<u>-</u>	<u>(10,826)</u>
Total capital assets, being depreciated, net	3,066	2,987	-	6,053
Capital assets, not being depreciated:				
Construction in progress	<u>1,249</u>	<u>-</u>	<u>(1,249)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,249</u>	<u>-</u>	<u>(1,249)</u>	<u>-</u>
Business-type activities capital assets, net	<u>\$ 4,315</u>	<u>\$ 2,987</u>	<u>\$ (1,249)</u>	<u>\$ 6,053</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 215
Public safety	1,035
Education	2,252
Public works	1,689
Health and human services	87
Culture and recreation	<u>844</u>
Total depreciation expense - governmental activities	<u>\$ 6,122</u>
Business-Type Activities:	
Water	\$ 21
Sewer	<u>332</u>
Total depreciation expense - business-type activities	<u>\$ 353</u>

9. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012.
Accounts payable represent 2012 expenditures paid after July 15, 2012.

10. Accrued Liabilities

This balance consists primarily of salaries earned but unpaid at June 30, 2012, accrued interest on bonds, and other accrued liabilities.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Municipal purpose FY 98	8/15/17	2.40%	\$ 2,362,200
Municipal purpose FY 99	8/15/17	2.40%	4,429,000
General obligation bonds	8/15/17	2.40%	2,141,800
General obligation bonds	3/15/18	3.33%	300,000
General obligation bonds	11/1/19	3.36%	445,000
General obligation bonds	11/1/24	3.98%	10,090,000
General obligation bonds	11/1/20	4.23%	1,220,000
General obligation bonds	7/15/28	4.00%	9,905,000
General obligation bonds	2/15/30	3.31%	4,750,000
General obligation bonds	6/15/27	1.80%	<u>3,722,000</u>
Total Governmental Activities:			<u>\$ 39,365,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Sewer			
Sewer bond (MWRA)	5/15/13	0.00%	\$ 58,828
Sewer bond (MWRA)	5/15/15	0.00%	182,952
General obligation bond	3/15/24	3.33%	900,000
Sewer bond (MWRA)	5/15/17	0.00%	<u>297,000</u>
Total Sewer:			<u>\$ 1,438,780</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/12</u>
Water			
Water bond (MWRA)	5/15/20	0.00%	\$ 1,389,088
General obligation bond	3/15/24	3.33%	<u>900,000</u>
Total Water:			<u>\$ 2,289,088</u>
Total Business-Type Activities:			<u>\$ 3,727,868</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,485,000	\$ 1,293,161	\$ 6,778,161
2014	4,034,000	1,159,520	5,193,520
2015	3,964,000	1,045,709	5,009,709
2016	3,750,000	925,451	4,675,451
2017	3,348,000	812,195	4,160,195
2018 - 2022	10,574,000	2,693,621	13,267,621
2023 - 2027	6,580,000	981,706	7,561,706
2028 - 2031	<u>1,630,000</u>	<u>96,650</u>	<u>1,726,650</u>
Total	<u>\$ 39,365,000</u>	<u>\$ 9,008,013</u>	<u>\$ 48,373,013</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 502,848	\$ 70,125	\$ 572,973
2014	444,020	64,125	508,145
2015	444,020	59,325	503,345
2016	383,036	54,075	437,111
2017	383,036	48,450	431,486
2018 - 2022	1,270,908	154,125	1,425,033
2023 - 2025	<u>300,000</u>	<u>19,050</u>	<u>319,050</u>
Total	<u>\$ 3,727,868</u>	<u>\$ 469,275</u>	<u>\$ 4,197,143</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/11</u>	Additions	Reductions	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 40,826	\$ 3,722	\$ (5,183)	\$ 39,365	\$ (5,485)	\$ 33,880
Other:						
Compensated absences	2,477	-	(208)	2,269	(113)	2,156
Accrued other post-employment benefits	<u>13,436</u>	<u>6,163</u>	<u>-</u>	<u>19,599</u>	<u>-</u>	<u>19,599</u>
Totals	<u>\$ 56,739</u>	<u>\$ 9,885</u>	<u>\$ (5,391)</u>	<u>\$ 61,233</u>	<u>\$ (5,598)</u>	<u>\$ 55,635</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 3,874	\$ 297	\$ (443)	\$ 3,728	\$ (503)	\$ 3,225
Other:						
Accrued other post-employment benefits	<u>302</u>	<u>150</u>	<u>-</u>	<u>452</u>	<u>-</u>	<u>452</u>
Totals	<u>\$ 4,176</u>	<u>\$ 447</u>	<u>\$ (443)</u>	<u>\$ 4,180</u>	<u>\$ (503)</u>	<u>\$ 3,677</u>

14. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations and stabilization funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 985,986	\$ 985,986
Total Nonspendable	-	985,986	985,986
Restricted			
Bonded projects	-	2,561,699	2,561,699
Special revenue funds	-	5,492,131	5,492,131
Expendable permanent funds	-	357,164	357,164
Total Restricted	-	8,410,994	8,410,994

(continued)

(continued)

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed			
Stabilization	4,554,002	-	4,554,002
Continuing appropriations	55,524	-	55,524
Capital project funds	-	3,082,342	3,082,342
Total Committed	4,609,526	3,082,342	7,691,868
Assigned			
Encumbrances	1,754,263	-	1,754,263
Reserved for expenditures	1,500,000	-	1,500,000
Total Assigned	3,254,263	-	3,254,263
Unassigned	9,630,553	(2,371,235)	7,259,318
Total Unassigned	9,630,553	(2,371,235)	7,259,318
Total Fund Balances	\$ 17,494,342	\$ 10,108,087	\$ 27,602,429

16. **General Fund Unassigned Fund Balance**

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 9,630,553
Tax refund estimate	<u>730,764</u>
Statutory (UMAS) Balance	\$ <u>10,361,317</u>

17. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

18. **Post-Employment Healthcare and Life Insurance Benefits**

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2011 the actuarial valuation date, approximately 792 retirees and 796 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 20% for HMO and PPO Plans, 40% for indemnity plans and 10% for Teachers retired before July 1, 2009, respectively, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2012 annual OPEB 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2011.

Annual Required Contribution (ARC)	\$ 10,337,248
Interest on net OPEB obligation	480,850
Adjustment to ARC	<u>(426,672)</u>
Annual OPEB cost	10,391,426
Contributions made	<u>(4,079,987)</u>
Increase in net OPEB obligation	6,311,439
Net OPEB obligation - beginning of year	<u>13,738,571</u>
Net OPEB obligation - end of year	<u>\$ 20,050,010</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 10,391,426	39%	\$ 20,050,010
2011	\$ 9,911,519	42%	\$ 13,738,571
2010	\$ 7,707,842	48%	\$ 7,946,627
2009	\$ 7,352,363	47%	\$ 3,920,363

E. Funded Status and Funding Progress

The funded status of the plan as of June 20, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 154,097,543
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 154,097,543</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 51,273,922</u>
UAAL as a percentage of covered payroll	<u>301%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Town has established an OPEB stabilization fund that reflects a balance of \$ 1,077,724 at June 30, 2012.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town 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 Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 9%, which decreases to a 5% long-term rate for all healthcare benefits after 8 years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

19. Contributory Retirement System

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of

the Watertown Contributory Retirement System (WCRS), a cost sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the WCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the WCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The WCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2011:

Retirees and beneficiaries receiving benefits	407
Terminated plan members entitled to but not yet receiving benefits	122
Active plan members	<u>508</u>
Total	<u>1,037</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2000	\$ 4,586,000	100%
2001	\$ 4,244,346	100%
2002	\$ 4,586,000	100%
2003	\$ 5,296,038	100%
2004	\$ 5,422,000	100%
2005	\$ 5,551,000	100%
2006	\$ 6,602,724	100%
2007	\$ 6,770,135	100%
2008	\$ 7,276,020	100%
2009	\$ 7,422,874	100%
2010	\$ 7,682,371	100%
2011	\$ 8,608,733	100%
2012	\$ 8,965,000	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Watertown Contributory Retirement System's most recent valuation (in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/10	\$ 89,433	\$ 155,963	\$ 66,530	57.3%	\$ 25,403	261.9%
01/01/09	\$ 78,515	\$ 144,634	\$ 66,119	54.3%	\$ 25,266	261.7%
01/01/08	\$ 97,038	\$ 140,549	\$ 43,511	69.0%	\$ 24,655	176.5%

The Schedule of Funding Progress following the Notes to the Financial Statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 66.5 million was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) a projected salary increase of 4.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.00%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2011, the

unfunded actuarially accrued liability is being amortized over 11 years using an open group method.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 8,812,557 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

21. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant

impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Town's actuarially accrued liability.

**TOWN OF WATERTOWN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2012
(Unaudited)**

Employees' Retirement System

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/10	\$ 89,432,797	\$ 155,963,135	\$ 66,530,338	57.3%	\$ 25,403,413	261.9%
01/01/09	\$ 78,514,694	\$ 144,633,508	\$ 66,118,814	54.3%	\$ 25,266,728	261.7%
01/01/08	\$ 97,038,107	\$ 140,549,411	\$ 43,511,304	69.0%	\$ 24,654,987	176.5%
01/01/06	\$ 77,395,170	\$ 130,484,841	\$ 53,089,671	59.3%	\$ 22,327,190	237.8%
01/01/04	\$ 72,563,856	\$ 120,699,469	\$ 48,135,613	60.1%	\$ 21,673,650	222.1%
01/01/02	\$ 70,633,407	\$ 111,494,385	\$ 40,860,978	63.4%	\$ 19,735,159	207.0%
01/01/01	\$ 66,804,435	\$ 100,876,281	\$ 34,071,846	66.2%	\$ 19,379,204	175.8%
01/01/00	\$ 67,485,797	\$ 93,900,795	\$ 26,414,998	71.9%	\$ 18,231,939	144.9%
01/01/99	\$ 56,172,432	\$ 90,052,933	\$ 33,880,501	62.4%	\$ 15,732,197	215.4%
01/01/98	\$ 54,266,762	\$ 76,162,713	\$ 21,895,951	71.3%	\$ 15,673,535	139.7%

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/11	\$ -	\$ 154,097,543	\$ 154,097,543	0.0%	\$ 51,273,922	300.5%
06/30/09	\$ -	\$ 118,381,044	\$ 118,381,044	0.0%	\$ 42,074,967	281.4%

See Independent Auditors' Report.

TOWN OF WATERTOWN, MASSACHUSETTS
SCHEDULE OF REVENUES AND EXPENDITURES,
AND OTHER USES - BUDGET AND ACTUAL
WATER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Original <u>Budget</u>	Revised <u>Budget</u>	Actual (Budgetary <u>Basis</u>)	Variance Favorable (<u>Unfavorable</u>)
Revenues:				
Current service charges	\$ 5,552,680	\$ 5,552,680	\$ 5,730,645	\$ 177,965
Interest income	<u>-</u>	<u>-</u>	<u>6,445</u>	<u>6,445</u>
Total Revenues	5,552,680	5,552,680	5,737,090	184,410
Expenditures:				
Personnel services	782,616	807,571	770,186	37,385
Supplies and materials	295,136	275,178	268,587	6,591
Charges and services	2,638,812	2,658,770	2,658,770	-
Capital outlay	207,000	207,000	205,958	1,042
Other	321,024	296,069	286,024	10,045
Transfers out	<u>1,308,092</u>	<u>1,308,092</u>	<u>1,308,092</u>	<u>-</u>
Total Expenditures and Other Uses	<u>5,552,680</u>	<u>5,552,680</u>	<u>5,497,617</u>	<u>55,063</u>
Excess of Revenues over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,473</u>	<u>\$ 239,473</u>

See Independent Auditors' report.

TOWN OF WATERTOWN, MASSACHUSETTS
 SCHEDULE OF REVENUES AND EXPENDITURES,
 AND OTHER USES - BUDGET AND ACTUAL
 SEWER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Current service charges	\$ 8,762,498	\$ 8,762,498	\$ 8,443,837	\$ (318,661)
Interest income	<u>-</u>	<u>-</u>	<u>16,747</u>	<u>16,747</u>
Total Revenues	8,762,498	8,762,498	8,460,584	(301,914)
Expenditures:				
Personnel services	347,498	357,923	301,414	56,509
Supplies and materials	378,478	378,478	365,185	13,293
Charges and services	5,591,351	5,591,351	5,542,951	48,400
Capital outlay	962,900	952,475	940,698	11,777
Other	232,200	232,200	232,200	-
Transfers out	<u>1,250,071</u>	<u>1,250,071</u>	<u>1,250,071</u>	<u>-</u>
Total Expenditures and Other Uses	<u>8,762,498</u>	<u>8,762,498</u>	<u>8,632,519</u>	<u>129,979</u>
Excess of Revenues over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (171,935)</u>	<u>\$ (171,935)</u>

See Independent Auditors' report.