

TOWN OF BERLIN, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Berlin, Massachusetts

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2013, on our consideration of the Town of Berlin, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 12) and general fund budgetary comparison and certain pension information (located on pages 39 through 43) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sullivan, King & Company, LLC

March 1, 2013

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$19,812,514 (net assets). Of this amount, \$3,635,892 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$1,427,122.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,719,793, or 16.1 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$229,668 during the fiscal year; no new debt was issued.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

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

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

The government-wide financial statements present functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest).

The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund financial statements

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

1. Governmental funds
2. Fiduciary funds

Governmental Funds

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

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

The Town maintains 22 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general and conservation (special revenue) funds, each of which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 16 - 19 of this report.

Fiduciary funds

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

The fiduciary funds provide separate information for the Town's agency funds. Agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption "agency funds".

The basic fiduciary fund financial statement can be found on page 20 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 38 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 39 - 43 of this report.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$19,812,514 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2012	2011
Assets		
Current assets.....	\$ 5,659,402	\$ 6,104,255
Noncurrent assets (excluding capital assets).....	1,463,865	1,515,129
Capital assets (net).....	14,462,595	12,673,803
Total assets.....	21,585,862	20,293,187
Liabilities		
Current liabilities (excluding debt).....	370,398	275,177
Current debt.....	229,606	229,668
Noncurrent debt.....	1,173,344	1,402,950
Total liabilities.....	1,773,348	1,907,795
Net Assets		
Invested in capital assets (net of related debt).....	13,147,809	11,139,017
Restricted.....	3,028,813	3,161,438
Unrestricted.....	3,635,892	4,084,937
Total net assets.....	\$ 19,812,514	\$ 18,385,392

The largest portion of the Town's net assets (66.4%) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (15.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (18.3% or \$3,635,892) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets.

Changes in Net Assets

The Town's total net assets increased by \$1,427,122 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2012	2011
Revenues		
<i>Program Revenues:</i>		
Charges for services.....	\$ 615,138	\$ 421,272
Operating grants and contributions.....	1,711,341	1,314,719
Capital grants and contributions.....	1,194,977	177,820
<i>General Revenues:</i>		
Real estate and personal property taxes.....	8,200,969	7,844,016
Motor vehicle and other excise taxes.....	375,231	346,866
Penalties and interest on taxes.....	38,602	34,589
Payments in lieu of taxes.....	55,577	47,213
Grants and contributions not restricted to specific programs.....	158,198	170,528
Unrestricted investment income.....	14,964	24,768
Total revenues.....	<u>12,364,997</u>	<u>10,381,791</u>
Expenses		
General government.....	871,024	848,265
Public safety.....	1,781,716	1,673,205
Education.....	7,042,359	6,498,362
Public works.....	880,524	926,553
Health and human services.....	96,572	52,528
Culture and recreation.....	208,145	174,697
Debt service - interest.....	57,535	57,990
Total expenses.....	<u>10,937,875</u>	<u>10,231,600</u>
Change in net assets.....	1,427,122	150,191
Net assets - beginning of year.....	<u>18,385,392</u>	<u>18,235,201</u>
Net assets - end of year.....	<u>\$ 19,812,514</u>	<u>\$ 18,385,392</u>

Governmental activities increased the Town's net assets by \$1,427,122. In the prior year, governmental activities increased the Town's net assets by \$150,191. The key element of this change relates to an increase in capital grants and contributions of approximately \$1,017,000.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$4,691,329, a decrease of \$745,005 in comparison with the prior year. \$1,719,793 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$260,683)
- Restricted (\$1,821,121)
- Committed (\$758,070)
- Assigned (\$131,662)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$1,719,793, while total fund balance was \$2,621,311. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 16.1% of total general fund expenditures and transfers out, while total fund balance represents 24.6% of that same amount.

The fund balance of the Town's general fund decreased by \$662,397 during fiscal year 2012. Although the Town recognized a budgetary surplus of approximately \$724,000 (before encumbrances and continuing appropriations), reserves totaling approximately \$987,000 were used to fund the fiscal year 2012 operating budget.

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

The fund balance of the conservation fund (special revenue) decreased by \$100,710 during the current fiscal year. The fund recognized \$50,000 of mall mitigation revenues, \$10,390 of lumber sales, and \$2,002 of investment income. The fund also incurred expenditures of \$166,811 during fiscal year 2012.

General Fund Budgetary Highlights

The original general fund budget of \$10,495,698 was increased by \$57,736 (0.6%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Police details.....	\$ 25,000	Unassigned fund balance
Town Counsel expenditures.....	15,000	Unassigned fund balance
Bicentennial celebration expenditures.....	10,000	Unassigned fund balance
Public Buildings expenditures.....	4,000	Unassigned fund balance
Sidewalk replacement expenditures.....	3,736	Unassigned fund balance
Total increase.....	<u>\$ 57,736</u>	

During the year, general fund revenues and expenditures and encumbrances and continuing appropriations were less than budgetary estimates, while other financing sources were greater, resulting in a positive overall budget to actual variance of approximately \$403,000.

Capital Assets and Debt Administration**Capital assets**

The Town's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$14,462,595 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$1,788,792 (14.1%).

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

- Conservation land (\$1,462,762)
- Purchase of fire engine (\$448,349)
- Infrastructure (\$276,106)

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

	<i>Governmental Activities</i>	
	2012	2011
Land.....	\$ 3,216,493	\$ 1,749,066
Land improvements.....	36,466	40,356
Buildings and improvements.....	8,071,939	8,349,996
Machinery, vehicles and equipment.....	1,269,150	855,337
Infrastructure.....	1,868,547	1,679,048
Total capital assets.....	<u>\$ 14,462,595</u>	<u>\$ 12,673,803</u>

Additional information on the Town's capital assets can be found in Note 5 on page 32 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$1,402,950, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2012	2011
General obligation bonds.....	\$ 1,320,000	\$ 1,540,000
MWPAT notes.....	82,950	92,618
Total bonds and notes.....	<u>\$ 1,402,950</u>	<u>\$ 1,632,618</u>

The Town's total bonded debt decreased by \$229,668 (14.1%) during the current fiscal year, with no new debt issued in the fiscal year.

Additional information on the Town's long-term debt can be found in Note 8 on page 34 of this report.

Economic Factors and Next Year's Budgets and Rates

The Town of Berlin is in stable financial condition and will remain so with continued financial vigilance. Part of that vigilance requires making wise financial decisions today that position the town to meet its future obligations. The fiscal year 2013 operating budget represents an overall increase in spending of 3.9%. This increase includes the Tahanto Capital Assessment. This assessment first appeared in fiscal year 2011 as an interest only payment. In fiscal year 2013 this assessment is \$491,222. Excluding this cost, the rest of the operating budget increases by 3.6% over fiscal year 2012. This follows an overall increase in spending of 5.6% (2.5% excluding the Tahanto Capital Assessment) in fiscal year 2012 over fiscal year 2011.

Major factors in the fiscal year 2012 budget process per the Finance Committee were as follows:

Tahanto Capital Assessment

In May 2010 the Tahanto Regional School District won approval from the Towns of Berlin and Boylston to build a new school that will also include the 6th grade. The Region will receive just over 50% reimbursement from the state. In order to take advantage of historically low interest rates, the Region borrowed early in fiscal year 2011 by issuing a 20 year bond at under 3% interest. The first assessment to the Town of Berlin appeared in fiscal year 2011 as \$162,992 (interest only). In fiscal year 2013, Berlin's assessment (both interest and principal) is \$491,222, an increase of \$45,657 over fiscal year 2012.

State Aid

The present economic climate has produced challenging times for State revenue collections. Berlin has seen its share of State aid drop from \$961,307 in fiscal year 2009, to the latest estimate of \$808,052 in fiscal year 2013 for a decrease of 15.9%. The estimate for fiscal year 2013 does represent an increase of 4.0% (\$30,800) over fiscal year 2012. This is further helped by a decrease of \$30,060 in State Charges in fiscal year 2013 over fiscal year 2012, primarily from a \$31,700 decrease in School Choice Sending Tuition.

Worcester County Retirement

In fiscal year 2013 the Town's obligation to the under-funded Worcester County Retirement fund increased by 12% (\$28,746) to \$269,330. The town is expected to see a similar increase in fiscal year 2014. This ever increasing obligation is becoming a significant contributor to the increase in the tax levy.

Health Insurance

Health insurance premiums increased 4.5% between fiscal year 2012 and fiscal year 2013. This compares to an 11.3% increase from fiscal year 2011 to fiscal year 2012 and a 13.0% increase from fiscal year 2010 to fiscal year 2011. However, lower participation rates in the plan have kept overall chapter 32b costs level (decrease of \$1,000 from fiscal year 2012 to fiscal year 2013). The Town continues its cost sharing ratio with employees at 75.0% Town and 25.0% employees. We continue to monitor the State's discussions about requiring all Towns to join the GIC's health care plans. A point of concern to the Town is whether this would require us to offer retiree health insurance. At this time, the Town does not offer retiree health insurance benefits and any requirement to do so would add significant uncertainty to future costs.

Tahanto/Berlin Memorial School (BMS)/Assabet

Berlin continues to see its share of Tahanto ownership increase with a larger enrollment from Berlin and a decrease from Boylston. Berlin's share has steadily increased from 31.5% to about 40.0% in fiscal year 2013. This translates into an increase of \$177,428 or 8.6% over fiscal year 2012 in Berlin's assessment. After several years of decreases in Berlin's Assabet assessment, there is an increase of \$12,186 (3.5%) in fiscal year 2013 over fiscal year. These increases have forced the BMS budget to remain flat with an increase of \$5,307(0.2%) over fiscal year 2012.

Capital Plan/Warrant Articles

The Financial Advisory Committee continues to work diligently toward keeping the Town on a strong financial footing, protecting our ability to borrow at favorable rates, providing the planning for necessary capital equipment, and advising the Town on financial issues. The plan will be funded mostly from free cash as it has been in the past. Free cash for fiscal year 2013 is \$611,385. This is a reduction from \$1,039,402 in fiscal year 2012 as ever tighter budgets have resulted in less free cash becoming available after each fiscal year.

The Total fiscal year 2012 capital plan has a value of \$493,436. Of these items, the Finance Committee recommendations total \$462,500, which would come from free cash. It should be noted that in fiscal year 2012, a new fire engine was purchased with a combination of free cash and stabilization funds. The stabilization funds were planned as "borrowed funds" to be repaid with free cash in fiscal year 2013 and fiscal year 2014. This plan has been adjusted to repay those funds in fiscal year 2014 and fiscal year 2015 to free up funds in fiscal year 2013 to purchase land for a future Town barn (Article 33).

Future Development

The town has two major developments in progress: Highland Commons on the Hudson/Berlin town line and RiverBridge located near the rotary. Each produced hard won mitigation packages approved at Special Town Meetings. These mitigation packages will start to payoff for the town as certain milestones are achieved in the developments. A BJ's store has been developed in both Berlin and Hudson at Highland Commons and RiverBridge has completed construction of a fuel station/convenience store in 2011. While funds aren't available to the town at this time, they provide a positive financial future for the Town.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 23 Linden Street, Berlin, Massachusetts, 01503

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS	Governmental Activities
Current assets:	
Cash and cash equivalents.....	\$ 3,338,002
Restricted cash and cash equivalents.....	1,318,858
Receivables, net of allowance for uncollectible amounts:	
Real estate and personal property taxes.....	215,063
Tax liens.....	290,545
Motor vehicle and other excise taxes.....	40,126
Departmental and other.....	123,090
Mall mitigation.....	50,000
Intergovernmental.....	277,394
Loans.....	6,324
Total current assets.....	5,659,402
Noncurrent assets:	
Receivables, net of allowance for uncollectible amounts:	
Real estate tax deferrals.....	56,071
Mall mitigation.....	750,000
Loans.....	81,835
Tax foreclosures.....	575,959
Capital assets not being depreciated.....	3,216,493
Capital assets, net of accumulated depreciation.....	11,246,102
Total noncurrent assets.....	15,926,460
Total assets.....	21,585,862
LIABILITIES	
Current liabilities:	
Warrants payable.....	91,519
Accrued payroll.....	233,973
Tax refunds payable.....	9,863
Other liabilities.....	31,263
Accrued interest.....	3,780
Long-term bonds and notes payable.....	229,606
Total current liabilities.....	600,004
Noncurrent liabilities:	
Long-term bonds and notes payable.....	1,173,344
Total liabilities.....	1,773,348
NET ASSETS	
Invested in capital assets, net of related debt.....	13,147,809
Restricted for:	
Loans.....	88,159
Debt service.....	11,786
Conservation.....	1,208,327
Permanent funds:	
Expendable.....	50,423
Nonexpendable.....	172,524
Other specific purposes.....	1,497,594
Unrestricted.....	3,635,892
Total net assets.....	\$ 19,812,514

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 871,024	\$ 79,478	\$ 249,089	\$ 1,001,277	\$ 458,820
Public safety.....	1,781,716	280,780	20,863	-	(1,480,073)
Education.....	7,042,359	105,832	1,253,681	-	(5,682,846)
Public works.....	880,524	143,031	86,136	193,700	(457,657)
Health and human services.....	96,572	4,108	27,244	-	(65,220)
Culture and recreation.....	208,145	1,909	74,328	-	(131,908)
Debt service - interest.....	57,535	-	-	-	(57,535)
Total governmental activities.....	\$ 10,937,875	\$ 615,138	\$ 1,711,341	\$ 1,194,977	(7,416,419)
General revenues:					
Real estate and personal property taxes.....					8,200,969
Motor vehicle and other excise taxes.....					375,231
Penalties and interest on taxes.....					38,602
Payments in lieu of taxes.....					55,577
Grants and contributions not restricted to specific programs.....					158,198
Unrestricted investment income.....					14,964
Total general revenues.....					8,843,541
Change in net assets.....					1,427,122
Net assets - beginning of year.....					18,385,392
Net assets - end of year.....					\$ 19,812,514

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	Conservation	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 2,929,675	\$ 408,327	\$ -	\$ 3,338,002
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	215,063	-	-	215,063
Real estate tax deferrals.....	56,071	-	-	56,071
Tax liens.....	290,545	-	-	290,545
Motor vehicle and other excise taxes.....	40,126	-	-	40,126
Departmental and other.....	59,026	-	64,064	123,090
Mall mitigation.....	-	800,000	-	800,000
Intergovernmental.....	345	-	277,049	277,394
Loans.....	-	-	88,159	88,159
Tax foreclosures.....	575,959	-	-	575,959
Restricted assets:				
Cash and cash equivalents.....	11,786	-	1,307,072	1,318,858
TOTAL ASSETS.....	\$ 4,178,596	\$ 1,208,327	\$ 1,736,344	\$ 7,123,267
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 85,154	\$ -	\$ 6,365	\$ 91,519
Accrued payroll.....	229,874	-	4,099	233,973
Tax refunds payable.....	9,863	-	-	9,863
Other liabilities.....	31,138	-	125	31,263
Deferred revenue.....	1,201,256	800,000	64,064	2,065,320
TOTAL LIABILITIES.....	1,557,285	800,000	74,653	2,431,938
FUND BALANCES:				
Nonspendable.....	-	-	260,683	260,683
Restricted.....	11,786	408,327	1,401,008	1,821,121
Committed.....	758,070	-	-	758,070
Assigned.....	131,662	-	-	131,662
Unassigned.....	1,719,793	-	-	1,719,793
TOTAL FUND BALANCES.....	2,621,311	408,327	1,661,691	4,691,329
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 4,178,596	\$ 1,208,327	\$ 1,736,344	\$ 7,123,267

See notes to basic financial statements.

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

	General	Conservation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes.....	\$ 8,024,005	\$ -	\$ -	\$ 8,024,005
Motor vehicle and other excise taxes.....	375,962	-	-	375,962
Tax liens.....	34,963	-	-	34,963
Payments in lieu of taxes.....	55,577	-	-	55,577
Charges for services.....	-	-	216,455	216,455
Intergovernmental.....	1,121,956	-	844,413	1,966,369
Penalties and interest on taxes.....	38,602	-	-	38,602
Licenses and permits.....	90,484	-	22,971	113,455
Fines and forfeitures.....	42,233	-	-	42,233
Departmental and other.....	67,404	60,390	116,945	244,739
Contributions.....	-	-	80,286	80,286
Investment income.....	14,964	2,002	843	17,809
TOTAL REVENUES.....	9,866,150	62,392	1,281,913	11,210,455
EXPENDITURES				
Current:				
General government.....	734,447	166,811	296,394	1,197,652
Public safety.....	1,760,565	-	52,293	1,812,858
Education.....	5,511,679	-	383,008	5,894,687
Public works.....	648,843	-	339,358	988,201
Health and human services.....	30,417	-	37,069	67,486
Culture and recreation.....	121,580	-	53,970	175,550
Pension benefits.....	645,163	-	-	645,163
Employee benefits.....	736,868	-	-	736,868
Property and liability insurance.....	58,897	-	-	58,897
State and county charges.....	90,494	-	-	90,494
Debt service:				
Principal.....	229,668	-	-	229,668
Interest.....	57,936	-	-	57,936
TOTAL EXPENDITURES.....	10,626,557	166,811	1,162,092	11,955,460
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(760,407)	(104,419)	119,821	(745,005)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	123,010	3,709	25,000	151,719
Transfers out.....	(25,000)	-	(126,719)	(151,719)
TOTAL OTHER FINANCING SOURCES (USES).....	98,010	3,709	(101,719)	-
NET CHANGE IN FUND BALANCES.....	(662,397)	(100,710)	18,102	(745,005)
FUND BALANCES AT BEGINNING OF YEAR.....	3,283,708	509,037	1,643,589	5,436,334
FUND BALANCES AT END OF YEAR.....	\$ 2,621,311	\$ 408,327	\$ 1,661,691	\$ 4,691,329

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances (page 16).....	\$ 4,691,329
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	14,462,595
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	2,065,320
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....	(3,780)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. Bonds and notes payable.....	<u>(1,402,950)</u>
Net assets of governmental activities (page 14).....	<u><u>\$ 19,812,514</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page 17).....	\$ (745,005)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>	
Capital outlays.....	2,351,745
Depreciation.....	(562,953)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>	
	153,266
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. This amount represents the related activity of the current period.</p>	
Bond maturities.....	229,668
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>	
	<u>401</u>
Changes in net assets of governmental activities (page 15).....	<u>\$ 1,427,122</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

ASSETS	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 72,759
Receivables, net of allowance for uncollectible amounts:	
Departmental and other.....	<u>19,605</u>
Total assets.....	<u>92,364</u>
 LIABILITIES	
Other liabilities.....	19,605
Liabilities due depositors.....	<u>72,759</u>
Total liabilities.....	<u>\$ 92,364</u>

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

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

Joint Venture

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

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2012 Assessment</u>
Tahanto Regional Middle/High School	To provide educational services/capital funding	215 Main Street Boylston, MA 01505	\$ 2,501,937
Assabet Valley Vocational Regional School District	To provide vocational educational services	215 Fitchburg Street Marlborough, MA 01752	352,844

The Tahanto Regional Middle/High School is governed by a six-member school committee consisting of three elected representatives from the Town. The Town is indirectly liable for the Tahanto Regional Middle/High School's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer at the address identified above.

The Assabet Valley Vocational Regional School District is governed by an eight-member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the Assabet Valley Vocational Regional School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government.

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *conservation fund* is a special revenue fund used to account for the accumulation of resources that can be used for open space resource purposes.

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

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

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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

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

The following fiduciary fund type is reported:

The *agency fund* is used to account for assets held in a custodial capacity. Such assets primarily consist of performance bonds and police detail activity. Agency funds do not present the results of operations or have a measurement focus.

E. Deposits and Investments**Government-Wide and Fund Financial Statements**

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

F. Accounts Receivable**Government-Wide and Fund Financial Statements**

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

Departmental and Other

Departmental and other receivables consist primarily of ambulance, property damage and police detail charges and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall, the Town entered into an agreement with Berlin Properties Limited Partnership to receive annual payments for the purpose of mitigating traffic, environmental, public safety, growth management and other impacts arising from the development of the Mall.

Loans

The Town administers various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

G. Allowance for Uncollectible Amounts

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

- Personal property taxes
- Motor vehicle excise taxes
- Departmental and other

As of June 30, 2012, the allowance for uncollectible amounts for personal property and motor vehicle excise tax receivables are immaterial and therefore not reported.

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

- Real estate taxes and tax liens
- Loans

Intergovernmental and Mall Mitigation receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

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

J. Capital Assets

Government-Wide Financial Statements

Capital assets, which consist of land, land improvements, buildings and improvements, machinery, vehicles and equipment and infrastructure (e.g., roads and similar items), are reported in the governmental activities column of the government-wide financial statements.

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

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

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20
Buildings and improvements.....	7 - 40
Machinery, vehicles and equipment.....	5 - 20
Infrastructure.....	20 - 50

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

Governmental Funds Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets.

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets.

Fund Financial Statements

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

M. Deferred Revenue

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

N. Net Assets and Fund Balances

Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

"Loans" represents outstanding septic loans receivable.

"Debt service" represents amounts accumulated from the issuance of refunding bonds for future payment of long-term debt service costs associated with Town Hall renovations. This amount will be amortized over the next 8 fiscal years.

"Conservation" represents amounts accumulated for open space resource purposes.

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

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

"Other specific purposes" represents restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

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

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

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

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

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

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

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

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

O. Long-term Debt

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

Q. Compensated Absences

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

Government-Wide Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred. At June 30, 2012, the liability for accrued vacation and sick pay was not material to the basic financial statements and therefore is not reported.

Governmental Fund Financial Statements

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

R. Use of Estimates

Government-Wide and Fund Financial Statements

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

S. Total Column

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting adopts the expenditure budget by majority vote.

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized \$10,495,698 in appropriations and other amounts to be raised. During fiscal year 2012, supplemental appropriations totaling \$57,736 were authorized.

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

The budgetary comparison schedule presented in the accompanying required supplementary information presents comparisons of the legally adopted budget, as amended, with actual results and encumbrances and continuing appropriations carried forward to the ensuing fiscal year. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy is to rely on FDIC and DIF insurance coverage. As of June 30, 2012, the Town was not exposed to custodial credit risk.

Investments Summary

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

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1
<u>Debt Securities:</u>		
Money market mutual funds.....	\$ 2,244,019	\$ 2,244,019
Repurchase agreements.....	1,906,863	1,906,863
External investment pools.....	81,884	81,884
Total investments.....	<u>\$ 4,232,766</u>	<u>\$ 4,232,766</u>

Investments - Custodial Credit Risk

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

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2012, the Town's investments were unrated by a national credit rating organization.

NOTE 4 - ACCOUNTS RECEIVABLE

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 215,063	\$ -	\$ 215,063
Real estate tax deferrals.....	56,071	-	56,071
Tax liens.....	290,545	-	290,545
Motor vehicle and other excise taxes.....	40,126	-	40,126
Departmental and other.....	208,315	(65,620)	142,695
Mall mitigation.....	800,000	-	800,000
Intergovernmental.....	277,394	-	277,394
Loans.....	88,159	-	88,159
	<u>\$ 1,975,673</u>	<u>\$ (65,620)</u>	<u>\$ 1,910,053</u>

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall (Mall), the Town entered into an agreement (Agreement) with Berlin Properties Limited Partnership (Developer) to receive annual payments for the purpose of mitigating traffic, as well as environmental, public safety, growth management and other impacts arising from the development of the Mall. During fiscal year 2012, \$50,000 of mitigation payments were received from the Developer per the terms of the Agreement. Approximately \$800,000 will be received in future fiscal years, and such payments relate solely to open space acquisition and preservation. Accordingly, an \$800,000 receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 179,529	\$ -	\$ 179,529
Real estate tax deferrals.....	56,071	-	56,071
Tax liens.....	290,545	-	290,545
Motor vehicle and other excise taxes.....	40,126	-	40,126
Departmental and other.....	59,026	64,064 (a)	123,090
Mall mitigation.....	-	800,000 (b)	800,000
Tax foreclosures.....	575,959	-	575,959
Total.....	<u>\$ 1,201,256</u>	<u>\$ 864,064</u>	<u>\$ 2,065,320</u>

- (a) Nonmajor governmental funds
(b) Conservation fund (major fund)

NOTE 5 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,749,066	\$ 1,467,427	\$ -	\$ 3,216,493
<u>Capital assets being depreciated:</u>				
Land improvements.....	77,806	-	-	77,806
Buildings and improvements.....	12,177,862	26,898	-	12,204,760
Machinery, vehicles and equipment.....	2,723,833	581,314	(18,500)	3,286,647
Infrastructure.....	1,975,966	276,106	-	2,252,072
Total capital assets being depreciated.....	16,955,467	884,318	(18,500)	17,821,285
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(37,450)	(3,890)	-	(41,340)
Buildings and improvements.....	(3,827,866)	(304,955)	-	(4,132,821)
Machinery, vehicles and equipment.....	(1,868,496)	(167,501)	18,500	(2,017,497)
Infrastructure.....	(296,918)	(86,607)	-	(383,525)
Total accumulated depreciation.....	(6,030,730)	(562,953)	18,500	(6,575,183)
Total capital assets being depreciated, net.....	10,924,737	321,365	-	11,246,102
Total governmental activities capital assets, net.....	\$ 12,673,803	\$ 1,788,792	\$ -	\$ 14,462,595

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

Governmental Activities:	
General government.....	\$ 38,491
Public safety.....	177,251
Education.....	191,872
Public works.....	149,852
Culture and recreation.....	5,487
Total depreciation expense - governmental activities.....	\$ 562,953

NOTE 6 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:			
	General Fund	Conservation Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ -	\$ 25,000	\$ 25,000 (1)
Nonmajor Governmental Funds.....	123,010	3,709	-	126,719 (2)
	<u>\$ 123,010</u>	<u>\$ 3,709</u>	<u>\$ 25,000</u>	<u>\$ 151,719</u>

(1) Represents a budgeted transfer to fund the Town's bicentennial celebrations.

(2) Represents budgeted transfers from ambulance receipts reserved (\$80,000), Anna Hunt trust (\$50), library dog receipts reserved (\$1,832), septic loan receipts reserved (\$9,617), cemetery receipts reserved (\$7,790), and sale of lots receipts reserved (\$600) special revenue funds to fund the fiscal year 2012 operating budget. Represents non-budgeted transfers from surplus state aid (\$12,330), transfer station receipts reserved (\$9,192), fire inspector receipts reserved (\$622), electrical inspector receipts reserved (\$615), and plumbing and gas inspector receipts reserved (\$362) special revenue funds to the general fund. Represents non-budgeted transfer from the conservation OSRP grant (\$3,709) to the conservation trust major fund.

NOTE 7 - SHORT-TERM FINANCING

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

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

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

The Town did not issue or retire any short-term debt during fiscal year 2012, nor was there any short-term debt outstanding at June 30, 2012.

NOTE 8 - LONG-TERM DEBT

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

Bonds and Notes Payable – Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWPAT - Title V Loan.....	5.23%	\$ 67,302	\$ -	\$ (7,553)	\$ 59,749
MWPAT - Title V Loan.....	5.33%	25,316	-	(2,115)	23,201
General obligation refunding.....	2.25-5.00%	1,540,000	-	(220,000)	1,320,000
Total.....		\$ 1,632,618	\$ -	\$ (229,668)	\$ 1,402,950

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 229,606	\$ 51,389	\$ 280,995
2014.....	219,658	45,919	265,577
2015.....	214,658	40,148	254,806
2016.....	189,523	33,485	223,008
2017.....	184,523	25,769	210,292
2018.....	174,523	18,237	192,760
2019.....	174,523	9,455	183,978
2020.....	9,523	683	10,206
2021.....	2,105	373	2,478
2022.....	2,154	266	2,420
2023.....	2,154	106	2,260
Total.....	\$ 1,402,950	\$ 225,830	\$ 1,628,780

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2012, the Town's subsidy totaled approximately \$4,800. Future subsidies total approximately \$19,800. The amount of MWPAT bonds outstanding at June 30, 2012, totaled \$82,950.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the Town had no authorized and unissued debt.

NOTE 9 - FUND BALANCES

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

	General	Conservation	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Loans.....	\$ -	\$ -	\$ 88,159	\$ 88,159
Permanent fund principal.....	-	-	172,524	172,524
Sub-total - Nonspendable.....	-	-	260,683	260,683
Restricted:				
Debt service.....	11,786	-	-	11,786
Conservation.....	-	408,327	-	408,327
Affordable housing.....	-	-	161,448	161,448
Ambulance receipts reserved.....	-	-	246,401	246,401
School choice.....	-	-	422,388	422,388
General government.....	-	-	38,786	38,786
Public safety.....	-	-	26,535	26,535
Education.....	-	-	112,338	112,338
Public works.....	-	-	115,923	115,923
Health and human services.....	-	-	111,851	111,851
Culture and recreation.....	-	-	156,731	156,731
School lunch.....	-	-	8,607	8,607
Sub-total - Restricted.....	11,786	408,327	1,401,008	1,821,121
Committed:				
Subsequent year's expenditures.....	568,700	-	-	568,700
Continuing appropriations.....	189,370	-	-	189,370
Sub-total - Committed.....	758,070	-	-	758,070
Assigned:				
Encumbrances.....	131,662	-	-	131,662
Unassigned.....	1,719,793	-	-	1,719,793
Total fund balances.....	\$ 2,621,311	\$ 408,327	\$ 1,661,691	\$ 4,691,329

NOTE 10 - STABILIZATION FUNDS

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

The balance of the stabilization fund at June 30, 2012 totals \$1,177,573. Of this amount, \$100,000 is reported as committed fund balance and \$1,077,573 is reported as unassigned fund balance in the general fund.

NOTE 11 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

NOTE 12 - PENSION PLAN

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

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at the Worcester County Court House, Worcester, Massachusetts, 01608.

Funding Policy – Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$245,212, 211,329 and \$198,897, respectively, which equaled its required contribution for each fiscal year.

NOTE 13 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$404,579 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and education expenditures.

NOTE 14 - COMMITMENTS

The Town's significant commitments are the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$321,032 at June 30, 2012.

NOTE 15 - CONTINGENCIES

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

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

NOTE 16 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is required to be implemented during fiscal year 2013. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is required to be implemented during fiscal year 2013. The implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.
- Statement No. 65, Items Previously Reported as Assets and Liabilities, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25, which is required to be implemented during fiscal year 2014. Management has determined that the implementation of this Statement will not impact the basic financial statements.

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

These pronouncements will be implemented by their respective implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 8,282,811	\$ -	\$ 8,282,811
Motor vehicle and other excise taxes.....	-	344,200	-	344,200
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	47,210	-	47,210
Intergovernmental.....	-	701,263	-	701,263
Penalties and interest on taxes.....	-	29,780	-	29,780
Licenses and permits.....	-	37,325	-	37,325
Fines and forfeitures.....	-	41,317	-	41,317
Departmental and other.....	-	21,503	-	21,503
Investment income.....	-	13,500	-	13,500
TOTAL REVENUES.....	-	9,518,909	-	9,518,909
EXPENDITURES				
Current:				
General government.....	192,180	701,212	7,458	900,850
Public safety.....	32,355	1,808,351	37,007	1,877,713
Education.....	106,739	5,513,930	-	5,620,669
Public works.....	14,180	724,022	(6,465)	731,737
Health and human services.....	13,009	26,175	3,800	42,984
Culture and recreation.....	26,165	129,543	-	155,708
Pension benefits.....	-	241,157	(573)	240,584
Employee benefits.....	18,000	863,265	-	881,265
Property and liability insurance.....	-	70,000	-	70,000
State and county charges.....	-	120,599	573	121,172
Debt service:				
Principal.....	-	229,668	-	229,668
Interest.....	-	52,000	5,936	57,936
TOTAL EXPENDITURES.....	402,628	10,479,922	47,736	10,930,286
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(402,628)	(961,013)	(47,736)	(1,411,377)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	449,889	-	449,889
Transfers out.....	-	(15,776)	(10,000)	(25,776)
TOTAL OTHER FINANCING SOURCES (USES)....	-	434,113	(10,000)	424,113
NET CHANGE IN FUND BALANCE.....	(402,628)	(526,900)	(57,736)	(987,264)
FUND BALANCE AT BEGINNING OF YEAR.....	1,681,224	1,681,224	1,681,224	1,681,224
FUND BALANCE AT END OF YEAR.....	\$ 1,278,596	\$ 1,154,324	\$ 1,623,488	\$ 693,960

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 8,079,603	\$ -	\$ 8,079,603	\$ (203,208)
375,962	-	375,962	31,762
34,963	-	34,963	34,963
55,577	-	55,577	8,367
717,377	-	717,377	16,114
38,602	-	38,602	8,822
90,484	-	90,484	53,159
42,233	-	42,233	916
67,404	-	67,404	45,901
9,382	-	9,382	(4,118)
9,511,587	-	9,511,587	(7,322)
734,447	120,273	854,720	46,130
1,760,565	37,328	1,797,893	79,820
5,511,679	90,703	5,602,382	18,287
648,843	25,161	674,004	57,733
30,417	9,504	39,921	3,063
121,580	34,063	155,643	65
240,584	-	240,584	-
736,868	4,000	740,868	140,397
58,897	-	58,897	11,103
90,494	-	90,494	30,678
229,668	-	229,668	-
57,936	-	57,936	-
10,221,978	321,032	10,543,010	387,276
(710,391)	(321,032)	(1,031,423)	379,954
473,011	-	473,011	23,122
(25,776)	-	(25,776)	-
447,235	-	447,235	23,122
(263,156)	(321,032)	(584,188)	403,076
1,681,224	1,681,224	1,681,224	-
\$ 1,418,068	\$ 1,360,192	\$ 1,097,036	\$ 403,076

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

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	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%
01/01/07	389,758,785	692,768,325	303,009,540	56.3%	211,581,755	143.2%
01/01/04	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%
01/01/01	316,389,108	426,280,953	109,891,845	74.2%	145,000,347	75.8%
01/01/99	248,967,040	374,455,997	125,488,957	66.5%	119,857,640	104.7%
01/01/98	240,982,371	394,330,873	153,348,502	61.1%	134,803,954	113.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2006	\$ 21,982,772	100
2007	22,997,682	100
2008	26,400,000	100
2009	28,800,000	100
2010	31,200,000	100
2011	33,072,000	100

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

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2007	\$ 159,714	100	0.7%
2008	156,465	100	0.7%
2009	181,998	100	0.7%
2010	198,897	100	0.7%
2011	211,329	100	0.7%
2012	245,212	100	0.7%

NOTE A - BUDGETARY - GAAP RECONCILIATION

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

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 9,511,587	\$ 10,543,010	\$ 447,235
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(48,073)	-	-
Net change in recording tax refunds payable.....	(7,525)	-	-
To record activity for MTRS on-behalf payments.....	404,579	404,579	-
To record encumbrances and continuing appropriations.....	-	(321,032)	-
Total on GAAP basis of accounting.....	9,860,568	10,626,557	447,235
<u>Reclassifications</u>			
To reclassify the stabilization fund to the general fund.....	5,582	-	(349,225)
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 9,866,150</u>	<u>\$ 10,626,557</u>	<u>\$ 98,010</u>

NOTE B - PENSION PLAN

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

Valuation date:	January 1, 2010
Actuarial cost method:	Individual entry age normal
Amortization method:	4.5% increasing for the 2002 and 2003 ERI and 4.0% increasing for the remaining unfunded liability
Remaining amortization period:	18 years remaining for the 2002 and 2003 ERI liability and 30 years for remaining unfunded liability
Asset valuation method:	4 year smoothing of realized and unrealized investment earnings greater than or less than the expected return

Actuarial assumptions:

Investment rate of return:	8.00%
Projected salary increases:	3.00%
Cost of living adjustment:	3.00% of the lesser of the pension amount and \$14,000 per year