

TOWN OF WINCHESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF WINCHESTER, MASSACHUSETTS

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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 Winchester, 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 Winchester, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Winchester Contributory Retirement System, which is as of and for the fiscal 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 of Winchester, Massachusetts, as of June 30, 2012 (except for the Winchester Contributory Retirement System, which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the Town of Winchester, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13), budgetary comparison and certain pension and other postemployment benefits information (located on pages 67 through 72) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sullivan, Roy & Company, LLC

December 12, 2012

Management's Discussion and Analysis

As management of the Town of Winchester, 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 \$133,185,640 (net assets). Of this amount, \$4,441,512 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased \$3,394,869.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$7,856,372, or 8.5 percent of total general fund expenditures and transfers out.
- The Town's total outstanding bonded debt increased \$4,632,127 during the fiscal year. The Town issued \$9,694,515 of new debt and retired \$14,326,642 of existing debt during the fiscal year.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's water/sewer operations and recreation activities.

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

Fund financial statements

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

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental funds

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

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

The Town maintains 482 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, school construction (capital projects) and Wright/Locke Farm purchase (capital projects), funds, each of which are considered to be major funds. Data from the other 479 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-23 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water/sewer operations and recreation activities.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds

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

The fiduciary funds provide separate information for the Town's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 27-28 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 29-65 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other post employment benefits information, which can be found on pages 67-72.

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 \$133,185,640 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets.....	\$ 42,197,335	\$ 49,412,432	\$ 5,697,099	\$ 5,570,670	\$ 47,894,434	\$ 54,983,102
Noncurrent assets (excluding capital assets).....	22,771,876	22,877,510	-	-	22,771,876	22,877,510
Capital assets (net).....	158,308,363	150,704,844	18,716,344	18,655,379	177,024,707	169,360,223
Total assets.....	<u>223,277,574</u>	<u>222,994,786</u>	<u>24,413,443</u>	<u>24,226,049</u>	<u>247,691,017</u>	<u>247,220,835</u>
Liabilities						
Current liabilities (excluding debt).....	5,655,227	3,139,882	247,334	326,207	5,902,561	3,466,089
Noncurrent liabilities (excluding debt).....	20,034,036	15,457,932	700,030	515,428	20,734,066	15,973,360
Current debt.....	18,451,845	17,045,385	1,265,700	1,156,256	19,717,545	18,201,641
Noncurrent debt.....	59,028,133	63,633,763	9,123,072	9,365,473	68,151,205	72,999,236
Total liabilities.....	<u>103,169,241</u>	<u>99,276,962</u>	<u>11,336,136</u>	<u>11,363,364</u>	<u>114,505,377</u>	<u>110,640,326</u>
Net Assets						
Invested in capital assets (net of related debt).....	108,645,162	106,944,536	10,800,068	10,500,477	119,445,230	117,445,013
Restricted.....	9,298,898	7,845,888	-	-	9,298,898	7,845,888
Unrestricted.....	2,164,273	8,927,400	2,277,239	2,362,208	4,441,512	11,289,608
Total net assets.....	<u>\$ 120,108,333</u>	<u>\$ 123,717,824</u>	<u>\$ 13,077,307</u>	<u>\$ 12,862,685</u>	<u>\$ 133,185,640</u>	<u>\$ 136,580,509</u>

The largest portion of the Town's net assets (89.7%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles 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 (7.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (3.3% or \$4,441,512) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$2,164,273 may be used to support governmental activities and \$2,277,239 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2012, the Town's total net assets decreased \$3,394,869, compared to a decrease of \$3,682,073 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 8,191,370	\$ 7,682,930	\$ 6,576,870	\$ 6,855,152	\$ 14,768,240	\$ 14,538,082
Operating grants and contributions.....	19,645,834	18,222,420	68,825	9,563	19,714,659	18,231,983
Capital grants and contributions.....	2,612,620	413,945	52,785	68,611	2,665,405	482,556
<i>General Revenues:</i>						
Real estate and personal property taxes.....	66,674,190	64,073,930	-	-	66,674,190	64,073,930
Motor vehicle and other excise taxes.....	2,727,710	2,911,981	-	-	2,727,710	2,911,981
Penalties and interest on taxes.....	170,014	135,966	-	-	170,014	135,966
Payments in lieu of taxes.....	5,364	25,782	-	-	5,364	25,782
Grants and contributions not restricted to specific programs.....	1,506,084	1,609,988	-	-	1,506,084	1,609,988
Unrestricted investment income.....	219,140	208,213	-	-	219,140	208,213
Total revenues.....	101,752,326	95,285,155	6,698,480	6,933,326	108,450,806	102,218,481
Expenses						
General government.....	7,429,691	7,538,391	-	-	7,429,691	7,538,391
Public safety.....	12,705,948	13,054,009	-	-	12,705,948	13,054,009
Education.....	65,367,488	60,589,030	-	-	65,367,488	60,589,030
Public works.....	8,970,130	9,077,900	-	-	8,970,130	9,077,900
Health and human services.....	1,260,501	1,225,543	-	-	1,260,501	1,225,543
Culture and recreation.....	2,728,465	2,701,582	-	-	2,728,465	2,701,582
Debt service - interest.....	3,346,255	2,139,239	-	-	3,346,255	2,139,239
Water/Sewer.....	-	-	8,359,714	7,987,968	8,359,714	7,987,968
Recreation.....	-	-	1,677,483	1,586,892	1,677,483	1,586,892
Total expenses.....	101,808,478	96,325,694	10,037,197	9,574,860	111,845,675	105,900,554
Change in net assets before transfers.....	(56,152)	(1,040,539)	(3,338,717)	(2,641,534)	(3,394,869)	(3,682,073)
Transfers, net.....	(3,553,339)	(3,404,478)	3,553,339	3,404,478	-	-
Change in net assets.....	(3,609,491)	(4,445,017)	214,622	762,944	(3,394,869)	(3,682,073)
Net assets - beginning of year.....	123,717,824	128,162,841	12,862,685	12,099,741	136,580,509	140,262,582
Net assets - end of year.....	\$ 120,108,333	\$ 123,717,824	\$ 13,077,307	\$ 12,862,685	\$ 133,185,640	\$ 136,580,509

Governmental activities decreased the Town's net assets by \$3,609,491. In the prior year, governmental activities decreased the Town's net assets by \$4,445,017. The key elements of this change are an increase in capital grants and contributions of approximately \$2,200,000, offset partially by increases in other post employment benefits and compensated absences expenses of approximately \$675,000.

Business-type activities increased the Town's net assets by \$214,622. In the prior year, business-type activities increased the Town's net assets by \$762,944. The key element of this change is an approximate \$698,000 decrease in water/sewer operating income resulting from a decrease in user consumption and an increase in the MWRA assessment.

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 \$26,687,496, a decrease of \$10,839,209 in comparison with the prior year. \$4,321,598 represents a deficit in unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$2,212,688)
- Restricted (\$20,586,589)
- Committed (\$7,684,920)
- Assigned (\$524,897)

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 \$7,856,372, while total fund balance was \$16,892,885. 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 8.5% of total general fund expenditures and transfers out, while total fund balance represents 18.3 % of that same amount.

The balance of the Town's general fund decreased \$743,667 during fiscal year 2012. The Town recognized a positive budget to actual variance (excluding encumbrances and continuing appropriations) totaling approximately \$4,136,000; and used approximately \$3,575,000 of reserves to fund the fiscal year 2012 budget.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the school construction fund (capital projects) decreased \$6,310,647 during the current fiscal year. The fund recognized \$1,886,569 of intergovernmental revenues. Expenditures totaled \$8,273,965.

The fund balance of the Wright/Locke Farm purchase capital projects fund (major fund) remained unchanged during the current fiscal year. The fund deficit at the end of the year totaled \$12,020,000 and is anticipated to be funded by the sale of the property or the issuance of long-term bonds in a future fiscal year.

Proprietary funds

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

Unrestricted net assets of the water/sewer enterprise fund at the end of the year amounted to \$2,226,834. The water/sewer enterprise fund had an increase in net assets for the year of \$100,524. Unrestricted net assets of the recreation enterprise fund at the end of the year amounted to \$50,405. The recreation enterprise fund had an increase in net assets for the year of \$114,098. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget totaled \$89,737,868. During the year, appropriation reductions totaling \$630,162 were authorized. The following table summarizes the net decrease:

<u>Purpose of Increase/(Decrease)</u>	<u>Amount</u>	<u>Funding Source</u>
Various capital outlay.....	\$ 226,950	Transfers from stabilization funds
Drug Free grant deficit funding.....	14,879	Unassigned fund balance
Prior year bills.....	14,438	Unassigned fund balance
Comptroller.....	9,500	Tax levy
Prior year Recreation Enterprise fund deficit.....	7,443	Unassigned fund balance
Reduce debt service appropriations.....	(178,971)	Transfers from stabilization funds (reduction)
Reduce debt service appropriations.....	(494,401)	Tax levy (reduction)
Reduce health insurance appropriations.....	<u>(230,000)</u>	Tax levy (reduction)
 Total net decrease.....	 \$ <u>(630,162)</u>	

During the year, revenues and other financing sources and uses exceeded budgetary estimates and expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive budget to actual variance totaling approximately \$2,473,000. Encumbrances and continuing appropriations total approximately \$1,663,000 at year-end.

Capital Assets and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business-type activities at the end of the fiscal year totaled \$177,024,707 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The total increase in the investment in capital assets for the current fiscal year was \$7,664,484 (4.5%).

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

- School construction in progress (approximately \$7,257,000)
- Aberjona River widening in progress (approximately \$2,583,000)
- Public safety building construction (\$1,887,000)
- Drainage improvements in progress (approximately \$483,000)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Land.....	\$ 60,081,516	\$ 60,081,516	\$ -	\$ -	\$ 60,081,516	\$ 60,081,516
Land improvements.....	2,435,096	2,621,270	1,543,085	63,666	3,978,181	2,684,936
Buildings and improvements.....	71,319,986	73,145,047	4,801,447	4,948,793	76,121,433	78,093,840
Machinery and equipment.....	1,358,999	1,677,761	663,201	632,080	2,022,200	2,309,841
Vehicles.....	1,344,169	1,541,443	-	5,782	1,344,169	1,547,225
Infrastructure.....	8,358,244	8,189,427	9,957,546	10,234,116	18,315,790	18,423,543
Construction in progress.....	13,410,353	3,448,380	1,751,065	2,770,942	15,161,418	6,219,322
Total capital assets.....	\$ 158,308,363	\$ 150,704,844	\$ 18,716,344	\$ 18,655,379	\$ 177,024,707	\$ 169,360,223

Additional information on the Town's capital assets can be found in Note 5 on pages 47-49 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$74,548,750, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
General obligation bonds.....	\$ 64,159,978	\$ 68,659,148	\$ 9,806,166	\$ 9,847,455	\$ 73,966,144	\$ 78,506,603
MWRA notes.....	-	-	554,562	642,223	554,562	642,223
MWPAT notes.....	-	-	28,044	32,051	28,044	32,051
Total bonds and notes.....	\$ 64,159,978	\$ 68,659,148	\$ 10,388,772	\$ 10,521,729	\$ 74,548,750	\$ 79,180,877

The Town's total bonded debt decreased \$4,632,127 (5.9%) during the current fiscal year; \$14,326,642 of new debt was issued.

The Town's bond rating from Moody's Investors Services for the May 2012 bond issuance was Aaa.

Additional information on the Town's long-term debt can be found in Note 9 on pages 52-56 of this report.

Economic Factors and Next Year's Budgets and Rates

The Annual Town Meeting held this past spring approved the fiscal year 2013 operating budget of \$100,853,806 which includes appropriations to the Special Article Fund, Building Stabilization Fund, Capital Stabilization Fund, Other Funds and transfers to both the Waster/Sewer and Recreation Enterprise Funds. Town Meeting also approved an appropriation of \$250,000 to the OPEB Fund.

The provisions of Proposition 2 ½ limit the growth of the Town's major source of revenue, property taxes, to an annual increase of 2 ½ plus a factor for new construction, unless the voters at an election approve an increase for operating expenses of debt service for a specific project. It is expected that in fiscal year 2013 the revenue collected from taxes will amount to \$69,400,731.

Total fiscal year 2012 General Fund revenue and transfers from other funds was approximately \$89,500,000. Property Taxes accounted for approximately 75%, Motor Vehicle Excise approximately 3% and Intergovernmental approximately 8% of total General Fund revenue. In fiscal year 2013 State Revenue is expected to increase compared to fiscal year 2012. State reimbursements related to School Construction will be \$672,082. Total fiscal year 2012 General Fund expenditures and transfers to other funds amounted to approximately \$87,600,000.

The Town continues to have substantial balances in both the Building Stabilization and Capital Stabilization Funds. At June 30, 2012 the Building Stabilization Fund has a balance of approximately \$4,600,000 and the Capital Stabilization Fund has a balance of approximately \$580,000.

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 Comptroller, 71 Mount Vernon Street, Winchester, Massachusetts 01890.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 17,832,009	\$ 1,255,369	\$ 19,087,378
Restricted cash and cash equivalents.....	21,038,345	2,472,496	23,510,841
Investments.....	74,060	-	74,060
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	754,922	-	754,922
Tax and utility liens.....	504,176	76,130	580,306
Motor vehicle and other excise taxes.....	124,565	-	124,565
User charges.....	-	1,893,104	1,893,104
Departmental and other.....	437,588	-	437,588
Intergovernmental.....	1,431,670	-	1,431,670
Total current assets.....	<u>42,197,335</u>	<u>5,697,099</u>	<u>47,894,434</u>
Noncurrent assets:			
Restricted cash and cash equivalents.....	430,058	-	430,058
Restricted investments.....	4,063,966	-	4,063,966
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	717,139	-	717,139
Special assessments.....	87,406	-	87,406
Intergovernmental.....	3,459,704	-	3,459,704
Tax foreclosures.....	13,603	-	13,603
Assets held for resale.....	14,000,000	-	14,000,000
Capital assets not being depreciated.....	73,491,869	1,751,065	75,242,934
Capital assets, net of accumulated depreciation.....	84,816,494	16,965,279	101,781,773
Total noncurrent assets.....	<u>181,080,239</u>	<u>18,716,344</u>	<u>199,796,583</u>
Total assets.....	<u>223,277,574</u>	<u>24,413,443</u>	<u>247,691,017</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	2,726,999	49,681	2,776,680
Accrued payroll.....	505,263	34,526	539,789
Tax refunds payable.....	545,702	-	545,702
Other liabilities.....	510,954	-	510,954
Accrued interest.....	1,057,961	158,222	1,216,183
Workers' compensation claims.....	150,678	-	150,678
Compensated absences.....	157,670	4,905	162,575
Short-term notes payable.....	13,320,000	-	13,320,000
Long-term bonds and notes payable.....	5,131,845	1,265,700	6,397,545
Total current liabilities.....	<u>24,107,072</u>	<u>1,513,034</u>	<u>25,620,106</u>
Noncurrent liabilities:			
Workers' compensation claims.....	50,226	-	50,226
Compensated absences.....	1,419,026	44,150	1,463,176
Net OPEB obligation.....	18,564,784	655,880	19,220,664
Long-term bonds and notes payable.....	59,028,133	9,123,072	68,151,205
Total noncurrent liabilities.....	<u>79,062,169</u>	<u>9,823,102</u>	<u>88,885,271</u>
Total liabilities.....	<u>103,169,241</u>	<u>11,336,136</u>	<u>114,505,377</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	108,645,162	10,800,068	119,445,230
Restricted for:			
Employee benefits.....	608,202	-	608,202
Debt service.....	218,494	-	218,494
Permanent funds:			
Expendable.....	1,734,213	-	1,734,213
Nonexpendable.....	2,212,688	-	2,212,688
Other specific purposes.....	4,525,301	-	4,525,301
Unrestricted.....	2,164,273	2,277,239	4,441,512
Total net assets.....	<u>\$ 120,108,333</u>	<u>\$ 13,077,307</u>	<u>\$ 133,185,640</u>

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.....	\$ 7,429,691	\$ 712,366	\$ 723,808	\$ -	\$ (5,993,517)
Public safety.....	12,705,948	2,727,940	123,817	-	(9,854,191)
Education.....	65,367,488	2,777,533	17,274,004	1,886,569	(43,429,382)
Public works.....	8,970,130	1,801,014	481,666	726,051	(5,961,399)
Health and human services.....	1,260,501	130,081	38,294	-	(1,092,126)
Culture and recreation.....	2,728,465	42,436	272,980	-	(2,413,049)
Debt service - interest.....	3,346,255	-	731,265	-	(2,614,990)
Total governmental activities....	101,808,478	8,191,370	19,645,834	2,612,620	(71,358,654)
Business-type activities:					
Water/Sewer.....	8,359,714	4,951,620	67,630	52,785	(3,287,679)
Recreation.....	1,677,483	1,625,250	1,195	-	(51,038)
Total business-type activities....	10,037,197	6,576,870	68,825	52,785	(3,338,717)
Total primary government.....	\$ 111,845,675	\$ 14,768,240	\$ 19,714,659	\$ 2,665,405	\$ (74,697,371)

(continued)

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (71,358,654)	\$ (3,338,717)	\$ (74,697,371)
<i>General revenues:</i>			
Real estate and personal property taxes.....	66,674,190	-	66,674,190
Motor vehicle and other excise taxes.....	2,727,710	-	2,727,710
Penalties and interest on taxes.....	170,014	-	170,014
Payments in lieu of taxes.....	5,364	-	5,364
Grants and contributions not restricted to specific programs.....	1,506,084	-	1,506,084
Unrestricted investment income.....	219,140	-	219,140
<i>Transfers, net</i>	(3,553,339)	3,553,339	-
Total general revenues and transfers.....	67,749,163	3,553,339	71,302,502
Change in net assets.....	(3,609,491)	214,622	(3,394,869)
Net assets - beginning of year.....	123,717,824	12,862,685	136,580,509
Net assets - end of year.....	\$ 120,108,333	\$ 13,077,307	\$ 133,185,640

See notes to basic financial statements.

(concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	School Construction	Wright/Locke* Farm Purchase
Cash and cash equivalents.....	\$ 17,832,009	\$ -	\$ -
Investments.....	74,060	-	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	754,922	-	-
Real estate tax deferrals.....	717,139	-	-
Tax liens.....	504,176	-	-
Motor vehicle and other excise taxes.....	124,565	-	-
Special assessments.....	87,406	-	-
Departmental and other.....	318,741	-	-
Intergovernmental.....	3,901,755	819,866	-
Tax foreclosures.....	13,603	-	-
Restricted assets:			
Cash and cash equivalents.....	414,823	13,690,026	-
Investments.....	411,873	-	-
TOTAL ASSETS.....	\$ 25,155,072	\$ 14,509,892	\$ -
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 482,424	\$ 1,446,195	\$ -
Accrued payroll.....	452,563	-	-
Tax refunds payable.....	545,702	-	-
Other liabilities.....	227,547	-	-
Deferred revenue.....	6,189,284	-	-
Accrued short-term interest.....	163,763	-	-
Workers' compensation claims.....	200,904	-	-
Short-term notes payable.....	-	1,300,000	12,020,000
TOTAL LIABILITIES.....	8,262,187	2,746,195	12,020,000
FUND BALANCES:			
Nonspendable.....	-	-	-
Restricted.....	826,696	11,763,697	-
Committed.....	7,684,920	-	-
Assigned.....	524,897	-	-
Unassigned.....	7,856,372	-	(12,020,000)
TOTAL FUND BALANCES.....	16,892,885	11,763,697	(12,020,000)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 25,155,072	\$ 14,509,892	\$ -

* Referred to in previous financial statements as Hamilton Farm

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 17,832,009
-	74,060
-	754,922
-	717,139
-	504,176
-	124,565
-	87,406
118,847	437,588
169,753	4,891,374
-	13,603
7,363,554	21,468,403
3,652,093	4,063,966
<u>\$ 11,304,247</u>	<u>\$ 50,969,211</u>
\$ 798,380	\$ 2,726,999
52,700	505,263
-	545,702
283,407	510,954
118,846	6,308,130
-	163,763
-	200,904
-	13,320,000
<u>1,253,333</u>	<u>24,281,715</u>
2,212,688	2,212,688
7,996,196	20,586,589
-	7,684,920
-	524,897
(157,970)	(4,321,598)
<u>10,050,914</u>	<u>26,687,496</u>
<u>\$ 11,304,247</u>	<u>\$ 50,969,211</u>

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

	General	School Construction	Wright/Locke* Farm Purchase
REVENUES			
Real estate and personal property taxes.....	\$ 66,414,991	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,795,496	-	-
Tax liens.....	50,348	-	-
Payments in lieu of taxes.....	5,364	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,479,234	-	-
Intergovernmental.....	16,307,323	1,886,569	-
Special assessments.....	38,876	-	-
Penalties and interest on taxes.....	170,014	-	-
Licenses and permits.....	1,281,690	-	-
Fines and forfeitures.....	48,751	-	-
Departmental and other.....	1,567,117	-	-
Contributions.....	-	-	-
Investment income.....	250,425	-	-
TOTAL REVENUES.....	90,409,629	1,886,569	-
EXPENDITURES			
Current:			
General government.....	5,673,825	76,749	-
Public safety.....	7,719,889	-	-
Education.....	36,090,267	8,197,216	-
Public works.....	6,189,466	-	-
Health and human services.....	499,444	-	-
Culture and recreation.....	1,587,921	-	-
Pension benefits.....	11,351,965	-	-
Employee benefits.....	10,421,357	-	-
Property and liability insurance.....	266,182	-	-
State and county charges.....	483,275	-	-
Debt service:			
Principal.....	5,040,032	-	-
Interest.....	2,625,772	-	-
TOTAL EXPENDITURES.....	87,949,395	8,273,965	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	2,460,234	(6,387,396)	-
OTHER FINANCING SOURCES (USES)			
Transfers in.....	1,104,516	-	-
Premium from issuance of bonds and notes.....	202,076	-	-
Proceeds of refunding bonds.....	-	6,324,052	-
Premium from issuance of refunding bonds.....	-	255,362	-
Transfers out.....	(4,510,493)	-	-
Payments to refunded bond escrow agent.....	-	(6,502,665)	-
TOTAL OTHER FINANCING SOURCES (USES).....	(3,203,901)	76,749	-
NET CHANGE IN FUND BALANCES.....	(743,667)	(6,310,647)	-
FUND BALANCES AT BEGINNING OF YEAR.....	17,636,552	18,074,344	(12,020,000)
FUND BALANCES AT END OF YEAR.....	\$ 16,892,885	\$ 11,763,697	\$ (12,020,000)

* Referred to in previous financial statements as Hamilton Farm

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 66,414,991
-	2,795,496
-	50,348
-	5,364
1,897,755	1,897,755
-	1,479,234
3,951,266	22,145,158
-	38,876
-	170,014
97,360	1,379,050
-	48,751
1,673,319	3,240,436
1,584,947	1,584,947
68,970	319,395
<u>9,273,617</u>	<u>101,569,815</u>
259,278	6,009,852
2,594,859	10,314,748
5,658,166	49,945,649
4,035,509	10,224,975
118,378	617,822
255,242	1,843,163
-	11,351,965
-	10,421,357
-	266,182
-	483,275
-	5,040,032
-	2,625,772
<u>12,921,432</u>	<u>109,144,792</u>
<u>(3,647,815)</u>	<u>(7,574,977)</u>
194,483	1,298,999
-	202,076
847,164	7,171,216
34,208	289,570
(341,845)	(4,852,338)
(871,090)	(7,373,755)
<u>(137,080)</u>	<u>(3,264,232)</u>
(3,784,895)	(10,839,209)
<u>13,835,809</u>	<u>37,526,705</u>
<u>\$ 10,050,914</u>	<u>\$ 26,687,496</u>

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

JUNE 30, 2012

Total governmental fund balances (page 19).....	\$	26,687,496
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		158,308,363
Assets held for resale in governmental activities are not financial resources and, therefore, are not reported in governmental funds.....		14,000,000
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		6,308,130
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.....		(894,198)
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, net of deferred losses on refundings.....		(64,159,978)
Compensated absences.....		(1,576,696)
Net OPEB obligation.....		<u>(18,564,784)</u>
Net assets of governmental activities (page 15).....	\$	<u>120,108,333</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 21)..... \$ (10,839,209)

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.

Capital outlays.....	13,111,380
Depreciation.....	(3,854,435)

In the statement of activities, the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, disposals of capital assets are not reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed..... (1,653,426)

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..... (309,138)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Proceeds of refunding bonds.....	(7,171,216)
Retirement of refunded bonds.....	6,645,000
Bond maturities.....	5,040,032
Amortization of deferred losses on refundings.....	(14,646)

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..... 22,922

Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

These amounts represent the net changes:

Compensated absences.....	(295,197)
Net OPEB obligation.....	<u>(4,291,558)</u>

Changes in net assets of governmental activities (page 17)..... \$ (3,609,491)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water/ Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 1,006,904	\$ 248,465	\$ 1,255,369
Restricted cash and cash equivalents.....	2,472,496	-	2,472,496
Receivables, net of allowance for uncollectible amounts:			
User charges.....	1,893,104	-	1,893,104
Utility liens.....	76,130	-	76,130
Total current assets.....	<u>5,448,634</u>	<u>248,465</u>	<u>5,697,099</u>
Noncurrent assets:			
Capital assets not being depreciated.....	1,751,065	-	1,751,065
Capital assets, net of accumulated depreciation.....	<u>16,922,512</u>	<u>42,767</u>	<u>16,965,279</u>
Total noncurrent assets.....	<u>18,673,577</u>	<u>42,767</u>	<u>18,716,344</u>
Total assets.....	<u>24,122,211</u>	<u>291,232</u>	<u>24,413,443</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	19,112	30,569	49,681
Accrued payroll.....	20,862	13,664	34,526
Accrued interest.....	158,222	-	158,222
Compensated absences.....	4,905	-	4,905
Long-term bonds and notes payable.....	<u>1,265,700</u>	<u>-</u>	<u>1,265,700</u>
Total current liabilities.....	<u>1,468,801</u>	<u>44,233</u>	<u>1,513,034</u>
Noncurrent liabilities:			
Compensated absences.....	44,150	-	44,150
Net OPEB obligation.....	502,053	153,827	655,880
Long-term bonds and notes payable.....	<u>9,123,072</u>	<u>-</u>	<u>9,123,072</u>
Total noncurrent liabilities.....	<u>9,669,275</u>	<u>153,827</u>	<u>9,823,102</u>
Total liabilities.....	<u>11,138,076</u>	<u>198,060</u>	<u>11,336,136</u>
FUND NET ASSETS			
Invested in capital assets, net of related debt.....	10,757,301	42,767	10,800,068
Unrestricted.....	<u>2,226,834</u>	<u>50,405</u>	<u>2,277,239</u>
Total net assets.....	<u>\$ 12,984,135</u>	<u>\$ 93,172</u>	<u>\$ 13,077,307</u>

See notes to basic financial statements.

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

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water/ Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services.....	\$ 4,928,965	\$ 1,625,250	\$ 6,554,215
Penalties and interest.....	22,655	-	22,655
TOTAL OPERATING REVENUES.....	4,951,620	1,625,250	6,576,870
OPERATING EXPENSES			
Cost of service and administration.....	2,658,968	1,664,560	4,323,528
MWRA assessment.....	4,620,369	-	4,620,369
Depreciation.....	531,234	12,922	544,156
TOTAL OPERATING EXPENSES.....	7,810,571	1,677,482	9,488,053
OPERATING INCOME (LOSS).....	(2,858,951)	(52,232)	(2,911,183)
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	2,264	1,195	3,459
Premium from issuance of refunding bonds.....	65,366	-	65,366
Interest expense.....	(549,144)	-	(549,144)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(481,514)	1,195	(480,319)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	(3,340,465)	(51,037)	(3,391,502)
Capital contributions.....	52,785	-	52,785
Transfers in.....	4,166,636	264,299	4,430,935
Transfers out.....	(778,432)	(99,164)	(877,596)
CHANGES IN FUND NET ASSETS.....	100,524	114,098	214,622
FUND NET ASSETS AT BEGINNING OF YEAR.....	12,883,611	(20,926)	12,862,685
FUND NET ASSETS AT END OF YEAR.....	\$ 12,984,135	\$ 93,172	\$ 13,077,307

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water/ Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 4,842,947	\$ 1,625,250	\$ 6,468,197
Payments to vendors.....	(6,137,420)	(743,937)	(6,881,357)
Payments to employees.....	(1,091,687)	(853,969)	(1,945,656)
NET CASH FROM OPERATING ACTIVITIES.....	<u>(2,386,160)</u>	<u>27,344</u>	<u>(2,358,816)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	4,166,636	264,299	4,430,935
Transfers out.....	(778,432)	(99,164)	(877,596)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>3,388,204</u>	<u>165,135</u>	<u>3,553,339</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the issuance of bonds and notes.....	904,515	-	904,515
Proceeds from the issuance of refunding bonds.....	1,618,784	-	1,618,784
Premium from issuance of refunding bonds.....	65,366	-	65,366
Capital contributions (MWRA grant).....	52,785	-	52,785
Acquisition and construction of capital assets.....	(605,121)	-	(605,121)
Principal payments on bonds and notes.....	(1,183,151)	-	(1,183,151)
Payments to refunded bond escrow agent.....	(1,664,505)	-	(1,664,505)
Interest expense.....	(368,899)	-	(368,899)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,180,226)</u>	<u>-</u>	<u>(1,180,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	2,264	1,195	3,459
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(175,918)	193,674	17,756
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
(Includes \$2,366,827 reported as restricted in the Water/Sewer Enterprise Fund).....	3,655,318	54,791	3,710,109
CASH AND CASH EQUIVALENTS AT END OF YEAR			
(Includes \$2,472,496 reported as restricted in the Water/Sewer Enterprise Fund).....	<u>\$ 3,479,400</u>	<u>\$ 248,465</u>	<u>\$ 3,727,865</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ (2,858,951)	\$ (52,232)	\$ (2,911,183)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Adjustments not requiring current cash flows:			
Depreciation.....	531,234	12,922	544,156
Net OPEB obligation.....	102,926	80,551	183,477
Adjustments requiring current cash flows:			
Changes in assets and liabilities:			
Utility liens.....	(15,616)	-	(15,616)
User charges.....	(93,057)	-	(93,057)
Warrants payable.....	(58,315)	(13,393)	(71,708)
Accrued payroll.....	4,370	(504)	3,866
Accrued compensated absences.....	1,249	-	1,249
Total adjustments.....	<u>472,791</u>	<u>79,576</u>	<u>552,367</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ (2,386,160)</u>	<u>\$ 27,344</u>	<u>\$ (2,358,816)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

ASSETS	Pension Trust Fund (As of 12/31/11)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 4,258,653	\$ 23,304	\$ 991,824
Investments.....	75,442,190	529,282	-
Interest and dividends.....	234	-	-
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	142,473	-	-
Total assets.....	79,843,550	552,586	991,824
 LIABILITIES			
Warrants payable.....	-	-	82,140
Other liabilities.....	-	-	841,405
Liabilities due depositors.....	-	-	68,279
Total liabilities.....	-	-	991,824
 NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 79,843,550	\$ 552,586	\$ -

See notes to basic financial statements.

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

	<u>Pension Trust Fund (As of 12/31/11)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 3,558,792	\$ -
Plan members.....	1,734,787	-
Private donations.....	-	450
	<hr/>	<hr/>
Total contributions.....	5,293,579	450
	<hr/>	<hr/>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	(1,060,961)	(9,593)
Interest.....	1,354,516	15,176
	<hr/>	<hr/>
Total investment income (loss).....	293,555	5,583
	<hr/>	<hr/>
Less investment expense.....	(280,300)	-
	<hr/>	<hr/>
Net investment income (loss).....	13,255	5,583
	<hr/>	<hr/>
Intergovernmental.....	150,917	-
	<hr/>	<hr/>
Transfers from other systems.....	308,030	-
	<hr/>	<hr/>
TOTAL ADDITIONS.....	5,765,781	6,033
	<hr/>	<hr/>
DEDUCTIONS		
Administration.....	317,592	-
Retirement benefits and refunds.....	6,311,595	-
Transfers to other systems.....	343,896	-
Scholarships awarded.....	-	4,264
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	6,973,083	4,264
	<hr/>	<hr/>
CHANGE IN NET ASSETS.....	(1,207,302)	1,769
	<hr/>	<hr/>
NET ASSETS AT BEGINNING OF YEAR.....	81,050,852	550,817
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR.....	\$ 79,843,550	\$ 552,586
	<hr/> <hr/>	<hr/> <hr/>

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 Winchester, 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.

The Town has included the Winchester Contributory Retirement System (System) as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the Town. Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

Blended Component Unit

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

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 71 Mount Vernon Street, Winchester, Massachusetts 01890.

Joint Ventures

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

The Town participates in one joint venture 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.

Northeast Metropolitan Regional Vocational School District

The Town is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's fiscal year 2012 assessment totaled approximately \$168,000. Separate financial statements may be obtained by writing to the Treasurer of the District at 100 Hemlock Road, Wakefield, Massachusetts 01880.

C. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting and Basis of PresentationGovernment-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *school construction fund* is a capital projects fund used to account for financial resources to expand and upgrade school facilities.

The *Wright/Locke Farm purchase fund* is a capital projects fund used to account for financial resources to purchase and subsequently sell the Wright/Locke Farm property (see Note 16).

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.

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

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

The following major proprietary fund is reported:

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

The following nonmajor proprietary fund is reported:

The *recreation enterprise fund* is used to account for recreation activities.

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 types are reported:

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

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of bid deposits and payroll withholdings. Agency funds do not present the results of operations or have a measurement focus.

E. Deposits and Investments

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. Fair value is based on quotations from a national securities exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

Alternative Investments

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed approximately one year 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.

User Charges (Water and Sewer)

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

Special Assessments

Special assessments for sidewalks and streets betterments are levied annually based on various sidewalks and streets projects. Residents have the option of paying their respective share of the betterment up front or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Special assessments are recorded as receivables when the project is complete.

Departmental and Other

Departmental and other receivables consist primarily of ambulance services and police details 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.

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 and other excise taxes
- Departmental and other

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

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

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

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) 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.....	20-30
Buildings and improvements.....	7-50
Machinery and equipment.....	5-30
Vehicles.....	8
Infrastructure.....	20-60

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

Governmental Fund Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

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

N. Net Assets and Fund Balances

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

"Employee benefits" represents restrictions for other postemployment and workers' compensation benefits.

"Debt service" represents amounts accumulated from premiums on exempt debt for the future payment of long-term debt service costs.

"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.

The Town adopted a general fund balance policy as of December 31, 2008. It is the Town's policy to maintain a sum in operating reserves that is no less than five percent of its total general fund revenues. The Town considers its operating reserves to consist of unassigned fund balance of the general fund's main operating fund and the general stabilization fund.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Funds Financial Statements

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

P. Investment Income

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

Investment income from the proprietary funds is retained in the proprietary funds.

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Funds Financial Statements

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

R. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 10, the Town provides health and life insurance coverage for current and future retirees and their spouses.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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 \$89,737,868 in appropriations. During fiscal year 2012, appropriation reductions totaling \$630,162 were authorized.

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

B. Fund Deficits

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

Fund	Amount	Funding Source
Wright/Locke Farm Purchase (major fund)....	\$ 12,020,000 *	Proceeds from sale of land or issuance of long-term debt
Tri Community Bike Path Grant.....	60,275	State grant
Police Vests Grant.....	33,824	Federal grant
SPED Professional Development.....	18,544	Federal grant
911 Support.....	17,980	State grant
Title III LEP support.....	16,463	Federal grant
SPED Cluster Grants 94-412.....	10,884	Federal grant

* See Note 16

C. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2012, expenditures and encumbrances and continuing appropriations exceeded appropriations for sealer of weights and measures personal services and department of public works' expenses. These over-expenditures will be funded through the tax levy during fiscal year 2013.

NOTE 3 - DEPOSITS AND INVESTMENTS***Town (excluding the Pension Trust Fund)***

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

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

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2012, \$8,056,437 of the Town's bank balance of \$10,518,097 was uninsured and uncollateralized.

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	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 1,082,848	\$ 96,708	\$ 633,530	\$ 251,991	\$ 100,619
Corporate bonds.....	207,384	133,325	-	-	74,059
Money market mutual funds.....	8,359,721	8,359,721	-	-	-
Fixed income securities.....	88,718	-	-	-	88,718
External investment pools.....	<u>22,432,158</u>	<u>22,432,158</u>	-	-	-
Total debt securities.....	<u>32,170,829</u>	<u>\$ 31,021,912</u>	<u>\$ 633,530</u>	<u>\$ 251,991</u>	<u>\$ 263,396</u>
<u>Other Investments:</u>					
Equity securities.....	2,467,178				
Equity mutual funds.....	<u>879,146</u>				
Total other investments.....	<u>3,346,324</u>				
Total investments.....	<u>\$ 35,517,153</u>				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town has a policy that the fixed income portion of the portfolio shall have an average maturity of not more than 10 years.

Investments - Custodial Credit Risk

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

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town has a policy that corporate debt obligations shall be rated no less than "A" by at least one nationally recognized bond rating service. As of June 30, 2012, the credit quality ratings of the Town's investments in debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *			
		AAA	AA	BBB	Unrated
Corporate bonds.....	\$ 207,384	\$ -	\$ 133,324	\$ 74,060	\$ -
Money market mutual funds.....	8,359,721	-	-	-	8,359,721
Fixed income securities.....	88,718	22,021	66,697	-	-
External investment pools.....	22,432,158	-	-	-	22,432,158
Total.....	\$ 31,087,981	\$ 22,021	\$ 200,021	\$ 74,060	\$ 30,791,879

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

The System participates in the Pension Reserve Investment Trust (PRIT), which 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 and provides regulatory oversight. The reported value of the pool is the same as the fair value of the System's position in pool shares.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2011, the System was not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2011 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Money market mutual funds.....	\$ 4,227,729	\$ 4,227,729
Mutual bond funds.....	15,558,919	15,558,919
External investment pools.....	<u>17,632,357</u>	<u>17,632,357</u>
Total debt securities.....	<u>37,419,005</u>	<u>\$ 37,419,005</u>
<u>Other Investments:</u>		
Equity mutual funds.....	36,270,196	
Real estate investments.....	2,114,934	
Alternative investments.....	<u>3,865,785</u>	
Total other investments.....	<u>42,250,915</u>	
Total investments.....	<u>\$ 79,669,920</u>	

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2011, \$1,505,804 of the System's investments of \$79,669,920 was uninsured, not registered in the name of the System and exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Held by Counterparty's Trust or Agent</u>
Real estate investments.....	<u>\$ 1,505,804</u>

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 System does not have a policy for credit risk of debt securities. As of December 31, 2011, the credit quality ratings of the System's debt securities are as follows:

<u>Quality Ratings*</u>	<u>Money Market Mutual Funds</u>	<u>Mutual Bond Funds</u>	<u>External Investment Pools</u>	<u>Total</u>
AAA.....	\$ -	\$ 9,843,360	\$ -	\$ 9,843,360
AA.....	-	711,517	-	711,517
A.....	-	1,750,143	-	1,750,143
BBB.....	-	2,847,752	-	2,847,752
BB.....	-	30,384	-	30,384
B.....	-	20,283	-	20,283
Below B.....	-	320,013	-	320,013
Unrated.....	<u>4,227,729</u>	<u>35,467</u>	<u>17,632,357</u>	<u>21,895,552</u>
Total.....	\$ <u>4,227,729</u>	\$ <u>15,558,919</u>	\$ <u>17,632,357</u>	\$ <u>37,419,005</u>

* Per the median quality ratings of Fitch's, Moody's or Standard and Poor's (national credit rating organizations)

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of December 31, 2011, the System's exposure to foreign currency risk is as follows:

Deposit/Investment Type	U.S. Dollar Balances	Currency
Equity mutual funds.....	\$ 3,380,736	Euro
Equity mutual funds.....	2,876,811	British Pound
Equity mutual funds.....	2,655,857	Japanese Yen
Equity mutual funds.....	1,082,882	Australian Dollar
Equity mutual funds.....	876,770	Hong Kong Dollar
Equity mutual funds.....	782,318	Swiss Franc
Equity mutual funds.....	749,214	South Korean Won
Equity mutual funds.....	515,539	Brazilian Real
Equity mutual funds.....	302,030	Taiwan Dollar
Equity mutual funds.....	287,200	Danish Krone
Equity mutual funds.....	266,780	South African Rand
Equity mutual funds.....	256,089	Swedish Krona
Equity mutual funds.....	234,946	Singapore Dollar
Equity mutual funds.....	210,556	Norwegian Krone
Equity mutual funds.....	158,890	Indonesian Rupiah
Equity mutual funds.....	141,882	Thailand Baht
Equity mutual funds.....	107,750	Polish Zloty
Equity mutual funds.....	91,467	Russian Rouble
Equity mutual funds.....	84,032	Indian Rupee
Equity mutual funds.....	73,092	Czech Koruna
Equity mutual funds.....	68,726	Mexican Peso
Equity mutual funds.....	52,620	Philippines Peso
Equity mutual funds.....	36,720	Malaysian Ringgit
Equity mutual funds.....	24,201	Canadian Dollar
Equity mutual funds.....	16,341	Turkish Lira
Equity mutual funds.....	8,632	New Zealand Dollar
Equity mutual funds.....	2,800	Chilean Peso
Equity mutual funds.....	1,145	Colombian Peso
Equity mutual funds.....	1,098	Israeli Shekel
Equity mutual funds.....	353	Hungarian Forint
Equity mutual funds.....	259	Egyptian Pound
Equity mutual funds.....	149	Moroccan Dirham
Equity mutual funds.....	53	Peruvian New Sol
 Total.....	 \$ <u>15,347,938</u>	

NOTE 4 - ACCOUNTS RECEIVABLE

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 754,922	\$ -	\$ 754,922
Real estate tax deferrals.....	717,139	-	717,139
Tax liens.....	504,176	-	504,176
Motor vehicle and other excise taxes.....	308,402	(183,837)	124,565
Special assessments.....	87,406	-	87,406
Departmental and other.....	570,627	(133,039)	437,588
Intergovernmental.....	5,033,847	-	5,033,847
	<u>\$ 7,976,519</u>	<u>\$ (316,876)</u>	<u>\$ 7,659,643</u>

At June 30, 2012, receivables for the water/sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 1,893,104	\$ -	\$ 1,893,104
Utility liens.....	76,130	-	76,130
	<u>\$ 1,969,234</u>	<u>\$ -</u>	<u>\$ 1,969,234</u>

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

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 545,089	\$ -	\$ 545,089
Real estate tax deferrals.....	717,139	-	717,139
Tax liens.....	504,176	-	504,176
Motor vehicle and other excise taxes.....	124,565	-	124,565
Special assessments.....	87,406	-	87,406
Departmental and other.....	318,742	118,846	437,588
Intergovernmental (state school construction).....	3,892,167	-	3,892,167
Total.....	<u>\$ 6,189,284</u>	<u>\$ 118,846</u>	<u>\$ 6,308,130</u>

McCall Middle School

The Massachusetts School Building Authority (MSBA) provides contract assistance to the Town for the completed McCall Middle School construction project. The assistance program provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2012, \$672,082 of such assistance was received. Approximately \$6,049,000 will be received in future fiscal years. Of this amount, approximately \$2,157,000 represents reimbursement of long-term interest costs, and approximately \$3,892,000 represents reimbursement of approved construction costs. Accordingly, a \$3,892,167 intergovernmental 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.

Vinson-Owen Elementary School

The MSBA provides grants to the Town for the current Vinson-Owen Elementary School construction project. The grant provides resources for allowable costs related to the school construction project. The MSBA has approved a maximum grant totaling approximately \$10,400,000, representing 40% of the total approved construction costs of approximately \$26,000,000. At June 30, 2012, approximately \$6,900,000 has been spent on the project and approximately \$1,500,000 in grants has been received and accrued. An \$819,866 intergovernmental receivable has been reported in the School Construction major governmental fund's financial statements for costs incurred but not yet reimbursed as of June 30, 2012.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 60,081,516	\$ -	\$ -	\$ 60,081,516
Construction in progress.....	3,448,381	10,295,844	(333,872)	13,410,353
Total capital assets not being depreciated.....	<u>63,529,897</u>	<u>10,295,844</u>	<u>(333,872)</u>	<u>73,491,869</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	5,882,328	-	(170,087)	5,712,241
Buildings and improvements.....	107,481,257	2,061,159	(2,693,791)	106,848,625
Machinery and equipment.....	9,983,144	-	(275,460)	9,707,684
Vehicles.....	4,707,319	105,757	(186,857)	4,626,219
Infrastructure.....	30,291,745	982,492	-	31,274,237
Total capital assets being depreciated.....	<u>158,345,793</u>	<u>3,149,408</u>	<u>(3,326,195)</u>	<u>158,169,006</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(3,261,058)	(154,818)	138,731	(3,277,145)
Buildings and improvements.....	(34,336,211)	(2,275,077)	1,082,649	(35,528,639)
Machinery and equipment.....	(8,305,383)	(310,108)	266,806	(8,348,685)
Vehicles.....	(3,165,876)	(300,757)	184,583	(3,282,050)
Infrastructure.....	(22,102,318)	(813,675)	-	(22,915,993)
Total accumulated depreciation.....	<u>(71,170,846)</u>	<u>(3,854,435)</u>	<u>1,672,769</u>	<u>(73,352,512)</u>
Total capital assets being depreciated, net.....	<u>87,174,947</u>	<u>(705,027)</u>	<u>(1,653,426)</u>	<u>84,816,494</u>
Total governmental activities capital assets, net.....	<u>\$ 150,704,844</u>	<u>\$ 9,590,817</u>	<u>\$ (1,987,298)</u>	<u>\$ 158,308,363</u>

Business-Type Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<i>Water/Sewer:</i>				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 2,770,942	\$ 482,776	\$ (1,502,653)	\$ 1,751,065
<u>Capital assets being depreciated:</u>				
Land improvements.....	43,947	1,532,641	-	1,576,588
Buildings and improvements.....	7,039,219	-	-	7,039,219
Machinery and equipment.....	1,440,825	92,357	-	1,533,182
Vehicles.....	773,463	-	-	773,463
Infrastructure.....	13,869,219	-	-	13,869,219
Total capital assets being depreciated.....	23,166,673	1,624,998	-	24,791,671
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(34,059)	(40,514)	-	(74,573)
Buildings and improvements.....	(2,092,337)	(144,919)	-	(2,237,256)
Machinery and equipment.....	(808,745)	(61,236)	-	(869,981)
Vehicles.....	(767,681)	(7,996)	-	(775,677)
Infrastructure.....	(3,635,103)	(276,569)	-	(3,911,672)
Total accumulated depreciation.....	(7,337,925)	(531,234)	-	(7,869,159)
Total capital assets being depreciated, net.....	15,828,748	1,093,764	-	16,922,512
Total water/sewer capital assets, net.....	18,599,690	1,576,540	(1,502,653)	18,673,577
<i>Recreation:</i>				
<u>Capital assets being depreciated:</u>				
Land improvements.....	364,965	-	-	364,965
Buildings and improvements.....	10,716	-	-	10,716
Total capital assets being depreciated.....	375,681	-	-	375,681
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(311,187)	(12,708)	-	(323,895)
Buildings and improvements.....	(8,805)	(214)	-	(9,019)
Total accumulated depreciation.....	(319,992)	(12,922)	-	(332,914)
Total recreation capital assets, net.....	55,689	(12,922)	-	42,767
Total business-type activities capital assets, net.....	\$ 18,655,379	\$ 1,563,618	\$ (1,502,653)	\$ 18,716,344

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

Governmental Activities:

General government.....	\$ 156,082
Public safety.....	317,658
Education.....	1,844,000
Public works.....	1,111,872
Health and human services.....	2,980
Culture and recreation.....	421,843

Total depreciation expense - governmental activities..... \$ 3,854,435

Business-Type Activities:

Water/Sewer.....	\$ 531,234
Recreation.....	12,922

Total depreciation expense - business-type activities..... \$ 544,156

NOTE 6 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:					Total
	General Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	Recreation Enterprise Fund		
General Fund.....	\$ -	\$ 105,333	\$ 4,140,861	\$ 264,299	\$ 4,510,493	(1)
Nonmajor Governmental Funds.....	226,920	89,150	25,775	-	341,845	(2)
Water/Sewer Enterprise Fund.....	778,432	-	-	-	778,432	(3)
Recreation Enterprise Fund.....	99,164	-	-	-	99,164	(3)
	<u>\$ 1,104,516</u>	<u>\$ 194,483</u>	<u>\$ 4,166,636</u>	<u>\$ 264,299</u>	<u>\$ 5,729,934</u>	

(1) Represents budgeted transfers to the Aberjona River widening fund (\$65,000), cemetery permanent care fund (\$25,453), drug free grant fund (\$14,880), water/sewer enterprise fund for budgeted subsidy (\$3,966,636), water/sewer enterprise fund from the capital stabilization fund (\$174,225), recreation enterprise fund for budgeted subsidy (\$155,299) and recreation fund from the reserve fund (\$109,000)

(2) Represents budgeted transfers to the general fund from the parking meter special revenue fund (\$77,000) and permanent care fund (\$70,000) and unbudgeted close-out transfers from various nonmajor governmental funds (\$79,920). Also represents miscellaneous transfers between nonmajor governmental funds (\$89,150) and a transfer from the Manchester Field capital projects fund to the water/sewer enterprise fund (\$25,775).

(3) Represents transfers for indirect costs related to shared employees

NOTE 7 - SHORT-TERM FINANCING

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

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

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

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

Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012
BAN	Wright/Locke Farm Purchase.....	12/30/10	7/7/11	1.25%	\$ 12,020,000	\$ -	\$ (12,020,000)	\$ -
BAN	Wright/Locke Farm Purchase.....	7/7/11	7/6/12	1.25%	-	12,020,000	-	12,020,000
BAN	School Feasibility Study.....	7/7/11	7/6/12	1.25%	-	1,300,000	-	1,300,000
Total.....					\$ 12,020,000	\$ 13,320,000	\$ (12,020,000)	\$ 13,320,000

Subsequent Events

On July 6, 2012, the Town renewed the Wright/Locke Farm Purchase and School Feasibility Study BANs in the amount of \$13,320,000, at an interest rate of 1.25% with a maturity date of July 2, 2013.

NOTE 8 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Governmental Activities:					
Bonds and notes payable, gross.....	\$ 68,710,411	\$ 7,171,216	\$ (11,685,032)	\$ 64,196,595	\$ 5,146,491
Unamortized deferred loss on refundings.....	(51,263)	-	14,646	(36,617)	(14,646)
Bonds and notes payable, net.....	68,659,148	7,171,216	(11,670,386)	64,159,978	5,131,845
Workers' compensation claims.....	125,429	209,249	(133,774)	200,904	150,678
Net OPEB obligation.....	14,273,226	6,650,589	(2,359,031)	18,564,784	-
Compensated absences.....	1,281,499	295,197	-	1,576,696	157,670
Total.....	<u>\$ 84,339,302</u>	<u>\$ 14,326,251</u>	<u>\$ (14,163,191)</u>	<u>\$ 84,502,362</u>	<u>\$ 5,440,193</u>
Business-type Activities:					
Bonds and notes payable, gross.....	\$ 10,615,863	\$ 2,523,299	\$ (2,683,151)	\$ 10,456,011	\$ 1,292,595
Unamortized deferred loss on refundings.....	(94,134)	-	26,895	(67,239)	(26,895)
Bonds and notes payable, net.....	10,521,729	2,523,299	(2,656,256)	10,388,772	1,265,700
Net OPEB obligation.....	472,403	284,332	(100,855)	655,880	-
Compensated absences.....	47,806	1,249	-	49,055	4,905
Total.....	<u>\$ 11,041,938</u>	<u>\$ 2,808,880</u>	<u>\$ (2,757,111)</u>	<u>\$ 11,093,707</u>	<u>\$ 1,270,605</u>

The governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 - LONG-TERM DEBT

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

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
School construction.....	4.57%	\$ 935,000	\$ -	\$ (935,000)	\$ -
Building remodeling refunding.....	3.51%	719,666	-	(183,882)	535,784
Ambrose school.....	4.47%	5,000,000	-	(3,920,000)	1,080,000
Lincoln school.....	4.44%	3,220,000	-	(2,530,000)	690,000
Computer hardware & software.....	3.75%	100,000	-	(50,000)	50,000
Capital improvements.....	4.21%	765,000	-	(536,000)	229,000
Departmental equipment.....	3.94%	130,000	-	(70,000)	60,000
Roads.....	4.13%	227,000	-	(161,000)	66,000
Dam improvements.....	3.92%	118,000	-	(73,000)	45,000
Cross street culvert.....	4.44%	140,000	-	(110,000)	30,000
School building remodeling refunding.....	3.82%	662,140	-	(77,610)	584,530
School engineering refunding.....	3.82%	141,605	-	(16,540)	125,065
School remodeling.....	3.92%	2,325,000	-	(165,000)	2,160,000
Town building remodeling.....	3.91%	275,000	-	(20,000)	255,000
Equipment and planning.....	3.51%	45,000	-	(5,000)	40,000
Drainage - cross street.....	3.90%	275,000	-	(20,000)	255,000
Building remodeling.....	4.25%	340,000	-	(25,000)	315,000
School remodeling.....	4.24%	900,000	-	(60,000)	840,000
Lincoln school.....	4.26%	370,000	-	(30,000)	340,000
Drainage.....	4.25%	35,000	-	(5,000)	30,000
Ambrose school.....	4.24%	1,300,000	-	(90,000)	1,210,000
Building remodeling & plans.....	4.25%	225,000	-	(15,000)	210,000
School remodeling.....	4.13%	2,616,000	-	(176,000)	2,440,000
School classrooms.....	4.08%	950,000	-	(80,000)	870,000
McCall middle school design.....	4.18%	500,500	-	(30,500)	470,000
Building remodeling and plans.....	4.15%	112,000	-	(8,000)	104,000
Recycling center planning.....	3.94%	45,000	-	(30,000)	15,000
McCall middle school addition.....	4.21%	5,562,500	-	(312,500)	5,250,000
Public safety building.....	4.21%	1,392,000	-	(82,000)	1,310,000
Town hall.....	4.20%	1,887,000	-	(106,000)	1,781,000
Transfer station/landfill use restoration.....	4.25%	350,000	-	(20,000)	330,000
Feasibility study - V.O. Elementary.....	2.28%	120,000	-	(40,000)	80,000
Public safety building.....	3.53%	1,470,000	-	(85,000)	1,385,000
DPW complex.....	3.55%	900,000	-	(50,000)	850,000
Transfer station belt.....	2.28%	270,000	-	(90,000)	180,000
Manchester field.....	3.24%	1,170,000	-	(90,000)	1,080,000
Fire alarms/corridor/ADA.....	3.53%	860,000	-	(50,000)	810,000
Building remodeling refunding.....	2.71%	176,000	-	(30,000)	146,000
School project refunding.....	2.76%	552,000	-	(90,000)	462,000
School construction refunding.....	3.23%	8,582,000	-	(85,000)	8,497,000
Muraco School HVAC.....	3.22%	1,190,000	-	(85,000)	1,105,000
Fire Trucks.....	2.38%	520,000	-	(130,000)	390,000
DPW Repairs.....	3.37%	205,000	-	(15,000)	190,000
Vinson-Owen School.....	4.05%	16,000,000	-	(640,000)	15,360,000
Lynch School roof repairs.....	3.65%	970,000	-	(50,000)	920,000
Muraco School HVAC.....	3.28%	100,000	-	(10,000)	90,000
Flood mitigation.....	3.68%	3,962,000	-	(202,000)	3,760,000
General obligation bonds refunding.....	2.00%	-	7,171,216	-	7,171,216
Sub-total.....		68,710,411	7,171,216	(11,685,032)	64,196,595
Deferred loss on refundings.....		(51,263)	-	14,646	(36,617)
Total governmental funds, net.....		\$ 68,659,148	\$ 7,171,216	\$ (11,670,386)	\$ 64,159,978

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 5,146,491	\$ 2,406,152	\$ 7,552,643
2014.....	4,965,061	2,315,715	7,280,776
2015.....	4,810,187	2,164,335	6,974,522
2016.....	4,477,895	1,717,540	6,195,435
2017.....	4,415,204	1,586,270	6,001,474
2018.....	4,344,088	1,446,999	5,791,087
2019.....	4,215,735	1,290,449	5,506,184
2020.....	4,178,858	1,141,149	5,320,007
2021.....	4,047,145	1,001,512	5,048,657
2022.....	3,114,512	882,984	3,997,496
2023.....	3,090,037	779,456	3,869,493
2024.....	2,956,087	674,738	3,630,825
2025.....	2,810,295	571,666	3,381,961
2026.....	1,975,000	480,252	2,455,252
2027.....	1,610,000	406,371	2,016,371
2028.....	1,600,000	340,213	1,940,213
2029.....	1,530,000	271,797	1,801,797
2030.....	890,000	222,276	1,112,276
2031.....	820,000	184,434	1,004,434
2032.....	640,000	149,600	789,600
2033.....	640,000	121,600	761,600
2034.....	640,000	92,800	732,800
2035.....	640,000	64,000	704,000
2036.....	640,000	32,000	672,000
Total.....	<u>\$ 64,196,595</u>	<u>\$ 20,344,308</u>	<u>\$ 84,540,903</u>

Bonds and Notes Payable – Water/Sewer Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water (MWRA).....	0.00%	\$ 22,000	\$ -	\$ (11,000)	\$ 11,000
Water treatment facility refunding.....	3.50%	1,310,334	-	(341,118)	969,216
MWPAT.....	4.96%	32,051	-	(4,007)	28,044
Drainage.....	4.44%	2,100,000	-	(1,650,000)	450,000
Water mains refunding.....	3.81%	2,170,895	-	(255,625)	1,915,270
Water mains II refunding.....	3.81%	385,360	-	(45,225)	340,135
Water (MWRA).....	0.00%	277,595	-	(55,519)	222,076
Drainage.....	4.46%	1,705,000	-	(110,000)	1,595,000
Phase III drainage.....	3.53%	670,000	-	(40,000)	630,000
Drainage.....	3.43%	1,600,000	-	(85,000)	1,515,000
Water (MWRA).....	0.00%	342,628	-	(85,657)	256,971
Flood mitigation and pump stations.....	2.00%	-	840,000	-	840,000
Sewer (MWRA).....	0.00%	-	64,515	-	64,515
Drainage refunding.....		-	1,618,784	-	1,618,784
Sub-total.....		10,615,863	2,523,299	(2,683,151)	10,456,011
Deferred loss on refundings.....		(94,134)	-	26,895	(67,239)
Total water/sewer enterprise fund, net...		\$ 10,521,729	\$ 2,523,299	\$ (2,656,256)	\$ 10,388,772

During fiscal year 2012, the Town issued general obligation bonds in the amount of \$840,000 for flood mitigation and pump stations.

The MWRA operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan (payable in five equal annual installments). During fiscal year 2012, the Town received an MWRA grant of \$52,785 and a non-interest bearing MWRA loan in the amount of \$64,515. At June 30, 2012, the outstanding principal amount of these loans totaled \$554,562.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 1,292,595	\$ 365,572	\$ 1,658,167
2014.....	1,258,025	341,273	1,599,298
2015.....	1,222,898	315,667	1,538,565
2016.....	844,533	213,652	1,058,185
2017.....	781,705	188,249	969,954
2018.....	749,918	162,741	912,659
2019.....	738,271	136,816	875,087
2020.....	721,142	112,066	833,208
2021.....	447,855	92,088	539,943
2022.....	435,488	78,291	513,779
2023.....	429,963	64,568	494,531
2024.....	418,913	48,934	467,847
2025.....	409,705	36,348	446,053
2026.....	230,000	25,627	255,627
2027.....	225,000	16,631	241,631
2028.....	125,000	9,778	134,778
2029.....	125,000	4,984	129,984
Total.....	\$ 10,456,011	\$ 2,213,285	\$ 12,669,296

Advanced Refunding – May 2012

The Town issued \$8,790,000 of general obligation refunding bonds, combined with a premium of \$354,936, to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$8,145,000 of previously issued general obligation bonds related to school construction, various governmental capital projects and water/sewer drainage. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide and enterprise fund financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$645,000. This amount was expensed in the current fiscal year. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by approximately \$1,140,000 and resulted in an economic gain of approximately \$1,030,000.

Authorized and Unissued Debt

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

<u>Purpose</u>	<u>Amount</u>
School Construction Project.....	\$ 12,655,807
Hamilton Farms Purchase.....	12,020,000 *
Sewer.....	1,382,127
School Feasibility Study.....	1,300,000 *
Schools.....	1,177,238
DPW/Roads.....	550,217
Drainage.....	308,450
Winning Farm.....	300,000
Library.....	200,000
Water.....	180,748
Other.....	<u>258</u>
Total.....	\$ <u>30,074,845</u>

* Short-term debt of \$13,320,000 has been issued and is outstanding as of June 30, 2012

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report.

The number of participants as of July 1, 2010, the latest actuarial valuation, is as follows:

Active employees.....	742
Retired employees, beneficiaries and dependents.....	<u>679</u>
Total.....	<u>1,421</u>

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates (including Medicare Part B) of Plan members and the Town vary by health plan and range from 50 - 90% and 10 - 50%, respectively. The Plan members and Town each contribute 50% towards a \$4,000 term life insurance policy. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

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

	<u>Amount</u>
Annual required contribution.....	\$ 6,859,778
Interest on net OPEB obligation.....	589,825
Adjustment to annual required contribution.....	<u>(514,682)</u>
Annual OPEB cost.....	6,934,921
Contributions made.....	<u>(2,459,886)</u>
Increase in net OPEB obligation.....	4,475,035
Net OPEB obligation at beginning of year.....	<u>14,745,629</u>
Net OPEB obligation at end of year.....	<u>\$ 19,220,664</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010.....	\$ 8,253,023	34.1%	\$ 10,674,728
June 30, 2011.....	6,668,269	39.0%	14,745,629
June 30, 2012.....	6,934,921	35.5%	19,220,664

Funded Status and Funding Progress - The funded status of the Plan at July 1, 2010, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
07/01/10	\$ 375,000	\$ 93,333,604	\$ 92,958,604	0.4%	\$ 42,210,838	220.2%

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

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

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

Valuation date:	July 1, 2010
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years at July 1, 2010 (open)
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	9.0% decreasing 0.5% annually to an ultimate level of 5.0%
Projected salary increases:	4.00% annually

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

Governmental Activities:	
General government.....	\$ 339,812
Public safety.....	1,074,913
Education.....	4,521,567
Public works.....	478,510
Health and human services.....	55,479
Culture and recreation.....	180,308
Total AOPEBC - governmental activities.....	<u>6,650,589</u>
Business-Type Activities:	
Water/Sewer.....	159,503
Recreation.....	124,829
Total AOPEBC - business-type activities.....	<u>284,332</u>
Total AOPEBC.....	<u>\$ 6,934,921</u>

NOTE 11 - RISK FINANCING*Property and Liability Insurance*

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

The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

Health Insurance

The Town participates in a premium-based health-care plan for its active and retired employees through a health insurance risk pool administered by the Massachusetts Interlocal Insurance Association (MIIA). MIIA offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by MIIA. The Town is obligated to pay MIIA its required premiums and, in the event that MIIA is terminated, its proportionate share of a deficit, should one exist.

The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

Workers' Compensation and Unemployment Insurance

The Town is self-insured for its workers' compensation and unemployment activities. These activities are accounted for in the general fund where expenses are recorded when incurred.

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The liability at June 30, 2012, totaled \$200,904. Changes in the reported liability since July 1, 2010, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2011.....	\$ 108,837	189,627	(173,035)	\$ 125,429
Fiscal year 2012.....	125,429	209,249	(133,774)	200,904

The Town's liability for unemployment claims is immaterial at June 30, 2012, and therefore is not reported.

NOTE 12 - FUND BALANCES

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

	General	School Construction	Hamilton Farm Purchase	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 2,212,688	\$ 2,212,688
Restricted for:					
Debt service.....	218,494	-	-	-	218,494
Other post employment benefits.....	422,945	-	-	-	422,945
Workers' compensation.....	185,257	-	-	-	185,257
School construction.....	-	11,763,697	-	-	11,763,697
Aberjona River widening.....	-	-	-	1,091,851	1,091,851
Housing funds.....	-	-	-	1,060,488	1,060,488
Library endowment.....	-	-	-	1,050,252	1,050,252
Manchester Field.....	-	-	-	719,499	719,499
Conservation fund.....	-	-	-	390,807	390,807
SPED Circuit Breaker.....	-	-	-	318,746	318,746
DPW complex.....	-	-	-	265,528	265,528
Sale of land receipts reserved.....	-	-	-	247,561	247,561
School lunch.....	-	-	-	80,645	80,645
Miscellaneous capital.....	-	-	-	8,717	8,717
General government.....	-	-	-	347,441	347,441
Public safety.....	-	-	-	241,348	241,348
Education.....	-	-	-	631,428	631,428
Public works.....	-	-	-	848,136	848,136
Health and human services.....	-	-	-	92,413	92,413
Culture and recreation.....	-	-	-	601,336	601,336
Sub-total - Restricted.....	826,696	11,763,697	-	7,996,196	20,586,589
Committed to:					
Subsequent year's expenditures.....	1,161,940	-	-	-	1,161,940
Building and capital stabilization.....	5,185,185	-	-	-	5,185,185
Special education stabilization.....	200,000	-	-	-	200,000
Continuing appropriations.....	1,137,795	-	-	-	1,137,795
Sub-total - Committed.....	7,684,920	-	-	-	7,684,920
Assigned to:					
Encumbrances.....	524,897	-	-	-	524,897
Unassigned.....	7,856,372	-	(12,020,000)	(157,970)	(4,321,598)
	\$ 16,892,885	\$ 11,763,697	\$ (12,020,000)	\$ 10,050,914	\$ 26,687,496

NOTE 13 - STABILIZATION FUNDS

The Town maintains the following stabilization funds that were established under MGL Chapter 40, Section 5B:

- Stabilization Fund (general and/or capital purposes)
- Building Renovations/Reconstruction Stabilization Fund
- Capital Improvements Stabilization Fund
- Special Education Stabilization Fund

Appropriations in and out of the stabilization funds require two-thirds vote of Town meeting. Investment income is retained by the funds.

The balance of the general and/or capital purpose, building renovation, capital stabilization and special education stabilization funds at June 30, 2012 total \$1,156,201, \$4,606,261, \$578,924 and \$200,000, respectively, and are reported in the general fund as unassigned (\$1,156,201) and committed (\$5,385,185) fund balance.

NOTE 14 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Winchester 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 Winchester Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 71 Mount Vernon Street, Winchester, Massachusetts, 01890.

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

Active members.....	365
Inactive members.....	106
Retirees and beneficiaries.....	<u>281</u>
Total.....	<u><u>752</u></u>

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

Annual Pension Cost – The Town’s contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$3,585,742, \$3,478,451 and \$3,291,220, respectively, which equaled the respective required contributions. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 99% of the total. At June 30, 2012, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011, actuarial valuation using the entry age normal actuarial cost method.

Funded Status and Funding Progress – The funded status of the plan at January 1, 2011, the most recent actuarial valuation date, is as follows:

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)
01/01/11	\$ 87,706,904	\$ 103,787,043	\$ 16,080,139	84.5%	\$ 17,195,132	93.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

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

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Level
Remaining amortization period:	10 years at January 1, 2011
Asset valuation method:	Actuarial value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return:	8.00%
Projected salary increases:	4.75%, 5.00% and 5.25% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3.00% per year of the first \$12,000
Interest rate credited to the annuity savings fund:	3.50% per year

Legally Required Reserve Accounts - The balance in the System's legally required reserves as of December 31, 2011, are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 18,531,985	Active members' contribution balance
Annuity Reserve Fund.....	5,263,942	Retired members' contribution account
Military Fund.....	6,233	Military leave of absence contribution balance
Pension Reserve Fund.....	55,443,315	Amounts appropriated to fund future retirement
Pension Fund.....	<u>598,075</u>	Remaining net assets
Total.....	<u>\$ 79,843,550</u>	

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2012 totaled approximately \$30,000.

NOTE 15 - 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 approximately \$7,794,000 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 16 - COMMITMENTS

Wright/Locke Farm (referred to in previous financial statements as Hamilton Farm)

During fiscal year 2008, the Town completed the \$14,000,000 purchase of Wright/Locke Farm (78 Ridge Street and 82 Ridge Street), which is reported as an Asset Held for Resale in the government-wide financial statements. During fiscal years 2008 through 2011, the Town (the "Seller") entered into purchase and sale agreements (including several amendments) to sell Wright/Locke Farm (excluding the historical buildings and raspberry patch located on the property) to a real estate development company (the "Buyer") for \$14,100,000. During fiscal year 2011, the Seller terminated the agreements and amendments with the Buyer due to the Buyer's failure to make its required payments.

In fiscal year 2012, the Town issued a Request for Proposals for the proposed disposition of a portion of Wright/Locke Farm, and all of the proposals received were rejected. Subsequent to year-end, the Board of Selectmen authorized the formation of a working group to establish criteria for the future development at Wright/Locke Farm.

Other

The Town has also entered into, or is planning to enter into, contracts totaling approximately \$5,400,000 for school remodeling and feasibility studies, land improvements, water and sewer system reconstruction and other governmental projects.

Other significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$1,662,692 at June 30, 2012.

NOTE 17 - 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. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 18 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

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

These pronouncements will be implemented by their respective implementation dates.

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Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 67,493,962	\$ (714,901)	\$ 66,779,061
Motor vehicle and other excise taxes.....	-	2,950,400	-	2,950,400
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	30,000	-	30,000
Trash disposal.....	-	1,360,000	-	1,360,000
Intergovernmental.....	-	8,380,104	-	8,380,104
Special assessments.....	-	36,000	-	36,000
Penalties and interest on taxes.....	-	100,000	-	100,000
Licenses and permits.....	-	1,280,000	-	1,280,000
Fines and forfeitures.....	-	55,000	-	55,000
Departmental and other.....	-	1,247,000	-	1,247,000
Investment income.....	-	100,000	-	100,000
TOTAL REVENUES.....	-	83,032,466	(714,901)	82,317,565
EXPENDITURES				
Current:				
General government.....	259,551	6,302,322	(356,485)	6,205,388
Public safety.....	6,057	7,958,446	39,708	8,004,211
Education.....	881,556	35,990,089	(222,669)	36,648,976
Public works.....	811,235	6,547,057	308,397	7,666,689
Health and human services.....	7,043	467,245	52,806	527,094
Culture and recreation.....	2,657	1,644,718	(2,648)	1,644,727
Pension benefits.....	-	3,642,742	-	3,642,742
Employee benefits.....	25,000	11,278,611	(261,186)	11,042,425
Property and liability insurance.....	-	340,000	-	340,000
State and county charges.....	-	483,585	-	483,585
Debt service:				
Principal.....	-	5,404,039	(360,000)	5,044,039
Interest.....	-	2,850,300	(313,372)	2,536,928
TOTAL EXPENDITURES.....	1,993,099	82,909,154	(1,115,449)	83,786,804
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,993,099)	123,312	400,548	(1,469,239)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	5,160,356	47,979	5,208,335
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(6,828,714)	(485,287)	(7,314,001)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(1,668,358)	(437,308)	(2,105,666)
NET CHANGE IN FUND BALANCE.....	(1,993,099)	(1,545,046)	(36,760)	(3,574,905)
FUND BALANCE AT BEGINNING OF YEAR.....	9,918,062	9,918,062	9,918,062	9,918,062
FUND BALANCE AT END OF YEAR.....	\$ 7,924,963	\$ 8,373,016	\$ 9,881,302	\$ 6,343,157

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 66,835,822	\$ -	\$ 66,835,822	\$ 56,761
2,795,496	-	2,795,496	(154,904)
50,348	-	50,348	50,348
5,364	-	5,364	(24,636)
1,479,234	-	1,479,234	119,234
8,513,439	-	8,513,439	133,335
38,876	-	38,876	2,876
170,014	-	170,014	70,014
1,281,690	-	1,281,690	1,690
48,751	-	48,751	(6,249)
1,567,117	-	1,567,117	320,117
101,518	-	101,518	1,518
<u>82,887,669</u>	<u>-</u>	<u>82,887,669</u>	<u>570,104</u>
5,673,824	345,733	6,019,557	185,831
7,719,889	10,640	7,730,529	273,682
36,090,267	276,013	36,366,280	282,696
6,177,828	1,006,259	7,184,087	482,602
499,444	15,459	514,903	12,191
1,587,921	2,708	1,590,629	54,098
3,616,153	-	3,616,153	26,589
10,787,044	5,880	10,792,924	249,501
290,182	-	290,182	49,818
483,275	-	483,275	310
5,040,032	-	5,040,032	4,007
2,536,928	-	2,536,928	-
<u>80,502,787</u>	<u>1,662,692</u>	<u>82,165,479</u>	<u>1,621,325</u>
<u>2,384,882</u>	<u>(1,662,692)</u>	<u>722,190</u>	<u>2,191,429</u>
5,288,255	-	5,288,255	79,920
202,076	-	202,076	202,076
<u>(7,314,001)</u>	<u>-</u>	<u>(7,314,001)</u>	<u>-</u>
<u>(1,823,670)</u>	<u>-</u>	<u>(1,823,670)</u>	<u>281,996</u>
561,212	(1,662,692)	(1,101,480)	2,473,425
<u>9,918,062</u>	<u>9,918,062</u>	<u>9,918,062</u>	<u>-</u>
<u>\$ 10,479,274</u>	<u>\$ 8,255,370</u>	<u>\$ 8,816,582</u>	<u>\$ 2,473,425</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS

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)
01/01/11	87,706,904	103,787,043	16,080,139	84.5%	17,195,132	93.5%
01/01/09	74,020,553	97,377,892	23,357,339	76.0%	16,879,293	138.4%
01/01/07	73,230,482	89,817,508	16,587,026	81.5%	15,863,491	104.6%
01/01/05	62,508,562	82,704,690	20,196,128	75.6%	14,092,068	143.3%
01/01/03	56,841,465	72,026,915	15,185,450	78.9%	13,361,418	113.7%
01/01/01	55,668,572	62,489,235	6,820,663	89.1%	12,543,350	54.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2006	\$ 2,800,000	100
2007	3,100,000	100
2008	3,227,543	100
2009	3,323,793	100
2010	3,515,362	100
2011	3,623,792	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	\$ 2,767,695	100	98.8
2008	3,063,805	100	98.8
2009	3,185,739	100	98.7
2010	3,291,220	100	99.0
2011	3,478,451	100	99.0
2012	3,585,742	100	98.9

OTHER POST EMPLOYMENT BENEFITS SCHEDULE

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

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/08	\$ -	\$ 110,278,479	\$ 110,278,479	0.0%	\$ 37,723,250	292.3%
07/01/10	375,000	93,333,604	92,958,604	0.4%	42,210,838	220.2%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress are as follows:

- The 07/01/10 valuation reflects the Town's adoption of Massachusetts General Laws Chapter 32B, Section 18, which shifted certain other postemployment benefits costs from the Town to a Medicare extension program
- The 07/01/10 valuation reflects the Town's favorable claims experience during the period between the 07/01/08 valuation and the 07/01/10 valuation

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.....	\$ 82,887,669	\$ 82,165,479	\$ (1,823,670)
<u>Reclassifications</u>			
Activity of stabilization funds recorded in the general fund for GAAP purposes.....	117,622	-	(1,092,254)
Activity of OPEB fund recorded in the general fund for GAAP purposes.....	31,285	-	250,000
Reclassification of employee benefits to enterprise funds.....	-	(537,977)	(537,977)
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(122,150)	-	-
Net change in recording tax refunds payable.....	(298,681)	-	-
To record MTRS on-behalf payments.....	7,793,884	7,793,884	-
Net change in recording short-term interest accrual.....	-	88,844	-
Net change in recording other expenditures.....	-	101,857	-
To record encumbrances and continuing appropriations.....	-	(1,662,692)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 90,409,629</u>	<u>\$ 87,949,395</u>	<u>\$ (3,203,901)</u>