

**TOWN OF SALISBURY, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2012

**TOWN OF SALISBURY, MASSACHUSETTS**

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**YEAR ENDED JUNE 30, 2012**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen  
Town of Salisbury, 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 Salisbury, Massachusetts, (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2012, 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 August 23, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the funding and contribution progress for pension benefits and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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.

Town of Salisbury  
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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.

Roselli, Clark & Associates  
Certified Public Accountants  
August 23, 2012

## Management's Discussion and Analysis

As the management of the Town of Salisbury, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town 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 approximately \$39.5 million (*total net assets*). Of this amount, approximately \$6.3 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by approximately \$3.0 million or approximately 8.3% year to year. The governmental activities increased net assets by nearly \$0.4 million (or 4.3% over the prior year net assets), while the business-type activities recorded an increase of approximately \$2.6 million (or 9.6% over the prior year net assets).
- The Town's Unassigned Fund Balance reported in the General Fund was nearly \$1.2 million (6.1% of General Fund expenditures); and the total fund balance in the General Fund exceeded \$1.3 million (6.9% of General Fund expenditures). Within the Nonmajor Funds which reported total fund balances of over \$1.1 million, the Town had restricted fund balances of approximately \$1.3 million and total unassigned deficits of approximately \$0.2 million allocated nearly equally between the Special Revenue and Capital Project Funds. A small portion of the Nonmajor Funds represented amounts that are nonspendable as corpus of endowment of about \$50 thousand.
- The Town's total long-term debt decreased by approximately \$1.1 million during the fiscal year as a result of anticipated scheduled pay downs of principal.

### Overview of the Financial Statements

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

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of 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 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 and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include water and sewer enterprise funds.

**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 of the Town can be divided into two categories: governmental funds, and proprietary funds.

Governmental Accounting Standards Board Statement #54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed – amounts constrained by a government using its highest level of decision-making authority
- Assigned – amounts a government intends to use for a particular purpose
- Unassigned – amounts that are not constrained at all will be reported in the General Fund

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Reconciliations are provided within the financial statements to facilitate this comparison.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. Data from the other governmental funds are combined into a single, aggregated presentation entitled Nonmajor Funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes after the footnotes to the financial statements.

**Proprietary Funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements provide separate information for enterprise funds of the water and sewer activities.

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

### Government-wide Financial Analysis

The condensed statement of net assets is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<u>Assets</u>						
Current and other assets	\$ 5,801,547	\$ 5,795,241	\$ 9,898,318	\$ 8,491,374	\$ 15,699,865	\$ 14,286,615
Capital assets, net	7,564,746	6,961,629	38,851,682	38,943,379	46,416,428	45,905,008
Total assets	13,366,293	12,756,870	48,750,000	47,434,753	62,116,293	60,191,623
<u>Liabilities</u>						
Long-term liabilities	3,082,931	2,899,678	16,978,085	17,949,286	20,061,016	20,848,964
Other liabilities	1,003,312	960,642	1,506,579	1,860,926	2,509,891	2,821,568
Total liabilities	4,086,243	3,860,320	18,484,664	19,810,212	22,570,907	23,670,532
<u>Net Assets</u>						
Invested in capital assets, net of related debt	6,417,153	5,792,562	25,094,502	21,605,909	31,511,655	27,398,471
Restricted	1,772,798	1,951,841	-	-	1,772,798	1,951,841
Unrestricted	1,090,099	1,152,147	5,170,834	6,018,632	6,260,933	7,170,779
Total Net Assets	\$ 9,280,050	\$ 8,896,550	\$ 30,265,336	\$ 27,624,541	\$ 39,545,386	\$ 36,521,091

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$39.5 million (*total net assets*). This reflects an increase over the preceding year by over \$3.0 million. An increase of about \$0.4 million in governmental activities which is attributed to about \$0.2 million of higher than anticipated governmental revenues and net capitalization of fixed asset expenses of \$0.6 million, both which were offset by recognized future other post-employment benefit costs. Net assets of all business-type activities were increased by a total of approximately \$2.6 million. This increase as it relates to operational activities is predominantly from the recognition of one-time revenues from sewer betterment billings totaling over \$3.4 million and reductions in sewer maintenance costs of about \$0.3 million. These increases were mitigated mostly from the recognition of approximately \$1.2 million of depreciation charges allocated as nearly \$0.4 million and \$0.8 million to the water and sewer activities, respectively.

By far the largest portion (approximately 79.7%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of 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 (approximately 4.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 15.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

The condensed statement of changes in net assets is as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,471,318	\$ 1,294,991	\$ 3,672,556	\$ 3,737,458	\$ 5,143,874	\$ 5,032,449
Operating grants and contributions	520,659	1,331,338	7,391	10,641	528,050	1,341,979
Capital grants and contributions	1,192,793	56,666	3,440,920	97,981	4,633,713	154,647
General revenues:						
Property taxes	15,883,826	15,606,493	-	-	15,883,826	15,606,493
Intergovernmental	737,320	768,814	-	-	737,320	768,814
Other	1,076,496	1,102,785	15,525	107,520	1,092,021	1,210,305
<b>Total Revenues</b>	<b>20,882,412</b>	<b>20,161,087</b>	<b>7,136,392</b>	<b>3,953,600</b>	<b>28,018,804</b>	<b>24,114,687</b>
<b>Expenses</b>						
General government	2,124,895	2,191,217	-	-	2,124,895	2,191,217
Public safety	5,249,165	5,438,880	-	-	5,249,165	5,438,880
Education	10,587,811	10,350,988	-	-	10,587,811	10,350,988
Public works	727,834	1,533,148	-	-	727,834	1,533,148
Health and human services	532,151	447,843	-	-	532,151	447,843
Culture and recreation	345,443	300,200	-	-	345,443	300,200
Community development	1,291,118	774,754	-	-	1,291,118	774,754
Debt service	61,391	51,438	-	-	61,391	51,438
Water	-	-	2,227,917	2,312,932	2,227,917	2,312,932
Sewer	-	-	1,846,784	2,126,536	1,846,784	2,126,536
<b>Total Expenses</b>	<b>20,919,808</b>	<b>21,088,468</b>	<b>4,074,701</b>	<b>4,439,468</b>	<b>24,994,509</b>	<b>25,527,936</b>
Increase in net assets before transfers	(37,396)	(927,381)	3,061,691	(485,868)	3,024,295	(1,413,249)
<b>Transfers</b>	<b>420,896</b>	<b>412,613</b>	<b>(420,896)</b>	<b>(412,613)</b>	<b>-</b>	<b>-</b>
Increase in net assets after transfers	383,500	(514,768)	2,640,795	(898,481)	3,024,295	(1,413,249)
Net assets, beginning of year	8,896,550	9,411,318	27,624,541	28,523,022	36,521,091	37,934,340
Net assets, end of year	<u>\$ 9,280,050</u>	<u>\$ 8,896,550</u>	<u>\$ 30,265,336</u>	<u>\$ 27,624,541</u>	<u>\$ 39,545,386</u>	<u>\$ 36,521,091</u>

**Governmental Activities.** The Town relies significantly on property taxes, which during 2012, comprised approximately 76.1% of total revenues; down slightly from the prior year of 77.4%. No other income categorization represented more than 10% of total revenues in fiscal year 2012 or 2011.

Major expenses during fiscal 2012 were for education, public safety and general government which comprised 32.9%, 28.3% and 13.7% respectfully of total expenses. All three categories were consistent with prior year ratios as operations were consistent from year to year. No other expense types were greater than 10% of total expenses in fiscal year 2012 or 2011.

**Business-type Activities.** The primary revenue sources for both water and sewer activities is comprised of usage fees for metered services and system connections which represented approximately 51.5% of total revenues. The remaining revenue in the current year is represented by a one-time event recognizing the



approximately \$3.4 million (48.2% of total revenue) for sewer betterments related to the future payment of previously issued debt principal associated with infrastructure construction. Water and sewer expenses represented 100% of total business-type expenses. Of the total expenses, approximately 51.7% pertains to direct operational costs with the remaining costs represented by debt service (approximately 19.5%) and current year depreciation (approximately 28.8%).

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

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$2.4 million. This represents an increase of approximately \$0.1 million over the previous year, which is the result of normal operations. Of the ending fund balance approximately \$0.9 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

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 was approximately \$1.2 million, while total fund balance reached over \$1.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 6.1% of total General Fund expenditures, while total fund balance represents approximately 6.9% of that same amount.

The Town reported a restricted fund balance of approximately \$1.3 million in the Nonmajor Fund and an unassigned deficit balance of approximately \$0.2 million which was effectively equally distributed amongst the Special Revenue and Capital Project Funds. Total fund balances of the Nonmajor Fund were over \$1.1 million.

**Proprietary Funds** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net assets of the Water Fund were approximately \$2.3 million; and net assets of the Sewer Fund amounted to approximately \$28.0 million.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were minor. The schedule of budgetary information is provided as *Required Supplementary Information*.

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

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to approximately \$46.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$0.5 million, net of depreciation, as a result of approximately \$2.0 million of fixed asset additions offset by nearly \$1.5 million of depreciation.

The Town has undergone significant capital improvements over the past several years. These include major improvements and additions to its town hall, roads, and recreational facilities; along with the more recent expansion of its sewerage system and a water tank replacement. A significant portion of these improvements were funded with reimbursements from grants provided by the federal government and the Commonwealth of Massachusetts.

Additional information on the Town capital assets can be found in Note C. of this report.

**Long-term Debt.** At the end of the current fiscal year, the Town had total debt outstanding of approximately \$19.1 million. Of this amount approximately \$1.2 million represents general obligation bonds of governmental activities and approximately \$17.9 million represents general obligation bonds of business-type activities.

The total long-term debt decreased by approximately \$1.1 million during the fiscal year, which represented regular scheduled pay downs of principal; there were no new long-term debt issuances during the year. The entire amount comprises debt backed by the full faith and credit of the government.

The Town will receive reimbursements for principal pay down of these notes in the amount of about \$0.3 million and future interest in the amount of approximately \$0.2 million as of the year ended June 30, 2012 from the Massachusetts Water Pollution Abatement Trust (MWPAT).

The last bond rating received by the Town was an "Aa3" as set by Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$72.7 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town's debt can be found in Note E. and Note F. of this report.

#### **Economic Factors and Next Year's Budgets and Rates**

- Consistent with both state and national work force trends, the Town's unemployment rates have continued to stabilize, with little volatility in the last 12 months. While this trend is expected to continue to improve in calendar 2013, this recovery may be slow. Furthermore, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2012 were approximately 80.5% of the entire property tax levy. The Town relies to a certain extent on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy. This limit may be exceeded through a majority vote at Town Meeting along with ballot approval.
- Consistent with both state and national indices, the Town's housing market experienced a downward trend from 2005-2010. Housing prices began to stabilize during fiscal year 2011 and recently are beginning to see an upward trend. The Town expects housing prices to rebound as the economy rebounds, but the nature, extent and timing of such a rebound cannot be estimated at the present time.

- The Town expects to set its tax rate for fiscal year 2013 in December 2012.

The above items were considered when the Town developed its budget for fiscal year 2013.

#### **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 the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Finance Director, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,691,888	\$ 4,862,701	\$ 7,554,589
Receivables (net):			
Property taxes	434,158	-	434,158
User fees	-	811,134	811,134
Departmental and other	1,748,246	-	1,748,246
Betterments	-	4,044,031	4,044,031
Intergovernmental	927,255	180,452	1,107,707
Capital assets, not being depreciated	2,818,550	1,753,001	4,571,551
Capital assets, net of accumulated depreciation	<u>4,746,196</u>	<u>37,098,681</u>	<u>41,844,877</u>
<b>Total Assets</b>	<u>13,366,293</u>	<u>48,750,000</u>	<u>62,116,293</u>
<b>Liabilities</b>			
Warrants and accounts payable	273,047	86,300	359,347
Accrued payroll and withholdings	94,635	-	94,635
Retainage payable	30,661	-	30,661
Accrued interest expense	-	298,030	298,030
Other liabilities	92,504	-	92,504
Short-term notes payable	93,000	111,262	204,262
Noncurrent liabilities:			
Due within one year	419,465	1,010,987	1,430,452
Due in more than one year	<u>3,082,931</u>	<u>16,978,085</u>	<u>20,061,016</u>
<b>Total Liabilities</b>	<u>4,086,243</u>	<u>18,484,664</u>	<u>22,570,907</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	6,417,153	25,094,502	31,511,655
Restricted:			
Nonexpendable permanent funds	54,145	-	54,145
Expendable permanent funds	404,655	-	404,655
Federal and State grants	866,890	-	866,890
Other purposes	447,108	-	447,108
Unrestricted	<u>1,090,099</u>	<u>5,170,834</u>	<u>6,260,933</u>
<b>Total Net Assets</b>	<u>\$ 9,280,050</u>	<u>\$ 30,265,336</u>	<u>\$ 39,545,386</u>

See accompanying notes to basic financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Primary government:									
Governmental activities:									
General government	\$ 2,124,895	\$ 593,875	\$ 1,505	\$ 10,000	\$ (1,519,515)		\$ (1,519,515)		
Public safety	5,249,165	723,548	82,095	91,238	(4,352,284)		(4,352,284)		
Education	10,587,811	4,500	76,546	-	(10,506,765)		(10,506,765)		
Public works	727,834	12,853	94,496	166,592	(453,893)		(453,893)		
Health and human services	532,151	98,134	231,059	-	(202,958)		(202,958)		
Culture and recreation	345,443	27,608	10,657	-	(307,178)		(307,178)		
Community development	1,291,118	10,800	24,301	924,963	(331,054)		(331,054)		
Debt service	61,391	-	-	-	(61,391)		(61,391)		
Total governmental activities	20,919,808	1,471,318	520,659	1,192,793	(17,735,038)		(17,735,038)		
Business-type activities:									
Water	2,227,917	2,128,632	-	-	\$ (99,285)		(99,285)		
Sewer	1,846,784	1,543,924	7,391	3,440,920	3,145,451		3,145,451		
Total business-type activities	4,074,701	3,672,556	7,391	3,440,920	3,046,166		3,046,166		
Total Primary Government	\$ 24,994,509	\$ 5,143,874	\$ 528,050	\$ 4,633,713	(17,735,038)	3,046,166	(14,688,872)		
General Revenues:									
Property taxes					15,883,826	-	15,883,826		
Intergovernmental					737,320	-	737,320		
Motor vehicle and other excise					964,318	-	964,318		
Penalties and interest on taxes					98,461	-	98,461		
Investment income					13,717	15,525	29,242		
Transfers (net)					420,896	(420,896)	-		
Total general revenues and transfers					18,118,538	(405,371)	17,713,167		
Change in Net Assets					383,500	2,640,795	3,024,295		
Net Assets:									
Beginning of year					8,896,550	27,624,541	36,521,091		
End of year					\$ 9,280,050	\$ 30,265,336	\$ 39,545,386		

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>General Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,526,619	\$ 1,165,269	\$ 2,691,888
Receivables:			
Property taxes	434,158	-	434,158
Departmental and other	1,748,246	-	1,748,246
Intergovernmental	248,712	678,543	927,255
<b>Total Assets</b>	<u><u>\$ 3,957,735</u></u>	<u><u>\$ 1,843,812</u></u>	<u><u>\$ 5,801,547</u></u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Warrants and accounts payable	\$ 79,072	\$ 193,975	\$ 273,047
Accrued payroll	90,583	4,052	94,635
Retainage payable	-	30,661	30,661
Short-term notes payable	-	93,000	93,000
Deferred revenues	2,373,856	396,338	2,770,194
Other liabilities	92,294	210	92,504
<b>Total Liabilities</b>	<u><u>2,635,805</u></u>	<u><u>718,236</u></u>	<u><u>3,354,041</u></u>
<b>Fund Balances:</b>			
Non-spendable	-	54,145	54,145
Restricted	-	1,306,654	1,306,654
Committed	151,486	-	151,486
Unassigned	1,170,444	(235,223)	935,221
<b>Total Fund Balances</b>	<u><u>1,321,930</u></u>	<u><u>1,125,576</u></u>	<u><u>2,447,506</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 3,957,735</u></u>	<u><u>\$ 1,843,812</u></u>	<u><u>\$ 5,801,547</u></u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

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

**JUNE 30, 2012**

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**Total Governmental Fund Balances** **\$ 2,447,506**

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds. 7,564,746

Other long-term assets are not available to pay for current-period expenditures  
and are therefore deferred on funds. 2,770,194

Long-term liabilities are not due and payable in the current period and therefore,  
are not reported in the government funds:

Bonds and notes payable	(1,248,412)
Capital lease obligations	(90,633)
Post-closing landfill monitoring costs	(324,500)
Compensated absences	(802,228)
Other post-employment benefits	<u>(1,036,623)</u>

**Net Assets of Governmental Activities** **\$ 9,280,050**

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 15,759,183	\$ -	\$ 15,759,183
Intergovernmental	1,061,225	1,675,837	2,737,062
Excise taxes	952,898	-	952,898
Licenses and permits	346,043	-	346,043
Departmental and other revenue	621,051	355,658	976,709
Penalties and interest on taxes	98,461	-	98,461
Fines and forfeitures	105,257	-	105,257
Investment income	10,497	3,220	13,717
Contributions and donations	-	53,309	53,309
<b>Total Revenues</b>	<u>18,954,615</u>	<u>2,088,024</u>	<u>21,042,639</u>
<b>Expenditures:</b>			
<b>Current:</b>			
General government	1,499,395	80,609	1,580,004
Public safety	3,344,370	355,464	3,699,834
Education	10,461,113	-	10,461,113
Public works	1,036,492	258,103	1,294,595
Health and human services	382,871	61,967	444,838
Culture and recreation	176,218	75,616	251,834
Community development	-	1,250,662	1,250,662
Fringe and pension benefits	2,007,355	-	2,007,355
State and county tax assessments	167,294	-	167,294
<b>Debt service:</b>			
Principal	136,116	-	136,116
Interest	60,126	1,265	61,391
<b>Total Expenditures</b>	<u>19,271,350</u>	<u>2,083,686</u>	<u>21,355,036</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(316,735)</u>	<u>4,338</u>	<u>(312,397)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	442,896	24,265	467,161
Transfers out	(10,000)	(36,265)	(46,265)
<b>Total Other Financing Sources (Uses)</b>	<u>432,896</u>	<u>(12,000)</u>	<u>420,896</u>
<b>Net Change in Fund Balances</b>	116,161	(7,662)	108,499
<b>Fund Balances - Beginning</b>	<u>1,205,769</u>	<u>1,133,238</u>	<u>2,339,007</u>
<b>Fund Balances - Ending</b>	<u>\$ 1,321,930</u>	<u>\$ 1,125,576</u>	<u>\$ 2,447,506</u>

See accompanying notes to basic financial statements.



**TOWN OF SALISBURY, MASSACHUSETTS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2012**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 108,499**

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. The net amounts are reflected here as reconciling items:

Capital Outlays	\$ 925,620	
Depreciation Expense	(322,503)	
Net effect of reporting fixed assets		603,117

The issuance of long-term debt 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 has any effect 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. The net amount presented here as a reconciling item represents the following differences:

Repayments of debt principal	136,116	
Payments of minimum capital lease principal obligations	83,637	
Net effect of reporting long-term debt		219,753

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 differ between the two statements. The amount presented represents the differences derived from deferred revenue.

(160,227)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Post-closing landfill monitoring costs	20,000	
Compensated absences	(21,923)	
Other post-employment benefits	(385,719)	
Net effect of reporting long-term liabilities		(387,642)

**Change in Net Assets of Governmental Activities** **\$ 383,500**

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**JUNE 30, 2012**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 1,439,915	\$ 3,422,786	\$ 4,862,701
Receivables, net:			
User charges	294,970	516,164	811,134
Betterments	-	16,892	16,892
Intergovernmental	111,262	-	111,262
Total current assets	<u>1,846,147</u>	<u>3,955,842</u>	<u>5,801,989</u>
Noncurrent assets:			
Receivables, net:			
Betterments	-	4,027,139	4,027,139
Intergovernmental	-	69,190	69,190
Land	369,002	1,383,999	1,753,001
Capital assets, net of depreciation	12,570,695	24,527,986	37,098,681
Total noncurrent assets	<u>12,939,697</u>	<u>30,008,314</u>	<u>42,948,011</u>
<b>Total Assets</b>	<u>14,785,844</u>	<u>33,964,156</u>	<u>48,750,000</u>
<b>Liabilities:</b>			
Current liabilities:			
Warrants and accounts payable	36,481	49,819	86,300
Accrued interest	200,214	97,816	298,030
Short-term notes payable	111,262	-	111,262
Bonds and notes payable	449,516	546,100	995,616
Compensated absences	-	15,371	15,371
Total current liabilities	<u>797,473</u>	<u>709,106</u>	<u>1,506,579</u>
Noncurrent liabilities:			
Bonds and notes payable	11,728,385	5,146,400	16,874,785
Compensated absences	-	46,114	46,114
Other post employment benefits	-	57,186	57,186
Total noncurrent liabilities	<u>11,728,385</u>	<u>5,249,700</u>	<u>16,978,085</u>
<b>Total Liabilities</b>	<u>12,525,858</u>	<u>5,958,806</u>	<u>18,484,664</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	761,796	24,332,706	25,094,502
Unrestricted	1,498,190	3,672,644	5,170,834
<b>Total Net Assets</b>	<u>\$ 2,259,986</u>	<u>\$ 28,005,350</u>	<u>\$ 30,265,336</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
<b>Operating Revenues:</b>			
Charges for services	\$ 2,128,632	\$ 1,543,924	\$ 3,672,556
<b>Total Operating Revenues</b>	<u>2,128,632</u>	<u>1,543,924</u>	<u>3,672,556</u>
<b>Operating Expenses:</b>			
Operating costs	1,284,687	819,609	2,104,296
Depreciation	363,395	811,710	1,175,105
<b>Total Operating Expenses</b>	<u>1,648,082</u>	<u>1,631,319</u>	<u>3,279,401</u>
<b>Operating Income (Loss)</b>	<u>480,550</u>	<u>(87,395)</u>	<u>393,155</u>
<b>Nonoperating Revenues (Expenses):</b>			
Intergovernmental	-	7,391	7,391
Interest income	3,745	11,780	15,525
Interest expense	(579,835)	(215,465)	(795,300)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(576,090)</u>	<u>(196,294)</u>	<u>(772,384)</u>
<b>Income (Loss) Before Capital Donations and Transfers</b>	<u>(95,540)</u>	<u>(283,689)</u>	<u>(379,229)</u>
<b>Capital Contributions</b>			
Betterments	-	3,440,920	3,440,920
Transfers out	<u>(120,795)</u>	<u>(300,101)</u>	<u>(420,896)</u>
<b>Change in Net Assets</b>	<u>(216,335)</u>	<u>2,857,130</u>	<u>2,640,795</u>
<b>Total Net Assets - Beginning</b>	<u>2,476,321</u>	<u>25,148,220</u>	<u>27,624,541</u>
<b>Total Net Assets - Ending</b>	<u>\$ 2,259,986</u>	<u>\$ 28,005,350</u>	<u>\$ 30,265,336</u>

See accompanying notes to basic financial statements.

**TOWN OF SALISBURY, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 3,572,063	\$ 1,550,246	\$ 5,122,309
Payments employees	-	(328,814)	(328,814)
Payments to vendors	(1,751,159)	(459,672)	(2,210,831)
Net Cash Provided by (Used for) Operating Activities	1,820,904	761,760	2,582,664
<b>Cash Flows from Noncapital Related Financing Activities:</b>			
Receipts from betterments	-	838,221	838,221
Transfers out	(120,795)	(300,101)	(420,896)
Net Cash (Used for) Provided by Noncapital Financing Activities	(120,795)	538,120	417,325
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Change in loss on bond defeasance	89,250	-	89,250
Government subsidy	-	7,391	7,391
Acquisition and construction of capital assets	(1,083,408)	-	(1,083,408)
Principal payments on bonds and notes	(422,644)	(564,600)	(987,244)
Interest expense	(581,776)	(227,741)	(809,517)
Net Cash Used for Capital and Related Financing Activities	(1,998,578)	(784,950)	(2,783,528)
<b>Cash Flows from Investing Activities:</b>			
Interest income	3,745	11,780	15,525
Net Cash Provided by Investing Activities	3,745	11,780	15,525
<b>Net Change in Cash and Cash Equivalents</b>	(294,724)	526,710	231,986
<b>Cash and Cash Equivalents:</b>			
Beginning of year	1,734,639	2,896,076	4,630,715
End of year	\$ 1,439,915	\$ 3,422,786	\$ 4,862,701
<b>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</b>			
Operating income (loss)	\$ 480,550	\$ (87,395)	\$ 393,155
Depreciation expense	363,395	811,710	1,175,105
Changes in assets and liabilities:			
Receivables	1,443,431	6,322	1,449,753
Accounts payable and accrued expenses	(466,472)	31,123	(435,349)
Net Cash Provided by (Used for) Operating Activities	\$ 1,820,904	\$ 761,760	\$ 2,582,664

The notes to the financial statements are an integral part of this statement.

## TOWN OF SALISBURY, MASSACHUSETTS

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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#### I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

##### A. Reporting Entity

The Town is located in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated in 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Triton Regional School District that provides educational services to three area communities. This joint venture assesses each community its share of operational and debt service costs based on student population and other factors. In fiscal year 2012, the Town's share of the operating and debt service expenses was \$9,771,100. There is no equity interest reported in these financial statements. Complete audited financial statements can be obtained directly from the District's administrative office located at 112 Elm Street, Byfield, MA 01922.

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds if they exist are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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 a liability is incurred. 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 given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year and are material. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major governmental fund:

General Fund – is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

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 the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

*Capital Project Funds* – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

*Permanent Funds* – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

*Water Enterprise Fund* – is used to account for the operation of the water department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

*Sewer Enterprise Fund* – is used to account for the operation of the sewer department. Costs associated with maintaining the related infrastructure and providing services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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

**D. Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes and water and sewer user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectibles for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectibles comprised of those outstanding amounts greater than five years old.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	40 years
Machinery and equipment	5-7 years
Vehicles	5-10 years
Infrastructure	25-50 years



Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

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 state law. Investment income of the proprietary funds is retained by the respective funds.

Compensated Absences – It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

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

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Net Assets – In the government-wide financial statements, net assets reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt and outstanding debt related to future state reimbursements for capital construction costs are not considered to be capital related debt.

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net assets have been *restricted for* the following:

*Nonexpendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Expendable permanent funds* represent amounts held in trust whereby expenditures are subject to various trust agreements.

*Federal and State grants* represent assets that have restrictions placed on them from federal and state granting agencies.

*Other purposes* represent assets that are restricted by donors and state laws for specific governmental programs and uses.

*Fund Equity* – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

*Non-spendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact.

The Town's non-spendable fund balance reported in the Nonmajor governmental funds consists of the corpus of endowments for various Town purposes in the amount of \$54,145.

The Town reports the following restricted fund balances:

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither-restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

The Town does not report any assigned fund balance.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

Negative unassigned amounts reported in the Nonmajor Governmental Funds include deficits in the Special Revenue Fund of \$103,239 and in the Town Capital Project Fund of \$131,984.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available

for use it is the Town's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity approved by the Finance Director as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

	General	Nonmajor Governmental Funds	Total
Non-Spendable:			
Perpetual permanent funds	\$ -	\$ 54,145	\$ 54,145
Committed:			
General government	25,735	-	25,735
Public safety	53,000	-	53,000
Public works	57,500	-	57,500
Culture and recreation	15,251	-	15,251
Restricted:			
General government	-	566,511	566,511
Public safety	-	185,812	185,812
Public works	-	194,240	194,240
Health and human services	-	100,783	100,783
Culture and recreation	-	68,832	68,832
Community preservation	-	190,476	190,476
Unassigned	1,170,444	(235,223)	935,221
<b>Totals</b>	<b>\$ 1,321,930</b>	<b>\$ 1,125,576</b>	<b>\$ 2,447,506</b>

#### **E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice removal costs and veterans services. These over expenditures will be funded through available funds during fiscal year 2013.

The Town has incurred grant activity deficits totaling \$107,256 within the Special Revenue Fund which is classified as a Nonmajor Governmental Fund; such deficits are expected to be eliminated during fiscal year 2013 as grant proceeds are received by the Town. Also within Nonmajor, are project deficits totaling \$131,984 in the Town Capital Project Fund; these deficits are anticipated to be funded through available funds or debt proceeds in future periods.

## **F. Use of Estimates**

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.

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

*Custodial Credit Risk: Deposits* - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the Town's deposits was \$7,554,589 and the bank balance was \$7,989,575. Of the Town's bank balance, \$3,119,550 was covered by either federal depository insurance or by the depositors' insurance fund; and the remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Interest Rate Risk* - The Town does not have formal investment policies that limit investment maturities as a way of managing its exposure to fair value losses arising from rising interest rates.

*Concentration of Credit Risk* - The Town does not place a limit on the amount that may be invested in any one issuer. During the fiscal year, the Town did not maintain balances in any single investment that would represent more than 5% of the Town's total investments.

*Credit Risk* - The Town has not adopted a formal policy related to credit risk. During the fiscal year, the Town limited its investments to money market accounts and bank deposits.

### **B. Receivables**

*MWPAT Loan Subsidies* - The Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$260,642 and interest in the amount of \$152,961 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements; therefore, the principal amounts of \$191,452 and \$69,190 are reported within the General Fund and Sewer Enterprise Funds, respectively.

Receivables as of year-end for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 596,240	\$ (195,897)	\$ 400,343
Tax deferrals	33,815	-	33,815
Tax liens	644,801	-	644,801
Tax foreclosures	942,027	-	942,027
Excise taxes	286,550	(125,132)	161,418
Intergovernmental	927,255	-	927,255
Total	<u>\$ 3,430,688</u>	<u>\$ (321,029)</u>	<u>\$ 3,109,659</u>

Receivables as of year-end for Town's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Sewer user fees	\$ 413,292	\$ -	\$ 413,292
Sewer liens	98,281	-	98,281
Sewer betterments - apportioned	16,892	-	16,892
Sewer betterments - unapportioned	4,027,139	-	4,027,139
Water user fees	285,357	-	285,357
Water liens	9,613	-	9,613
Intergovernmental	180,452	-	180,452
Total	<u>\$ 5,031,026</u>	<u>\$ -</u>	<u>\$ 5,031,026</u>

Unapportioned sewer betterments are amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

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 components of deferred revenues in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 400,343	\$ -	\$ 400,343
Tax deferrals	33,815	-	33,815
Tax liens	644,801	-	644,801
Tax foreclosures	942,027	-	942,027
Excise taxes	161,418	-	161,418
Intergovernmental	191,452	396,338	587,790
Total	<u>\$ 2,373,856</u>	<u>\$ 396,338</u>	<u>\$ 2,770,194</u>

### C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,818,550	\$ -	\$ -	\$ 2,818,550
Total capital assets not being depreciated	2,818,550	-	-	2,818,550
Capital assets being depreciated:				
Buildings and improvements	2,893,177	17,780	-	2,910,957
Infrastructure	5,955,653	879,766	-	6,835,419
Machinery and equipment	1,309,188	-	-	1,309,188
Vehicles	2,221,995	28,074	-	2,250,069
Total capital assets being depreciated	12,380,013	925,620	-	13,305,633
Less accumulated depreciation for:				
Buildings and improvements	(1,490,905)	(51,502)	-	(1,542,407)
Infrastructure	(4,186,600)	(87,179)	-	(4,273,779)
Machinery and equipment	(729,594)	(95,873)	-	(825,467)
Vehicles	(1,829,835)	(87,949)	-	(1,917,784)
Total accumulated depreciation	(8,236,934)	(322,503)	-	(8,559,437)
Total capital assets being depreciated, net	4,143,079	603,117	-	4,746,196
Governmental activities capital assets, net	\$ 6,961,629	\$ 603,117	\$ -	\$ 7,564,746
<u>Business Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,753,001	\$ -	\$ -	\$ 1,753,001
Total capital assets not being depreciated	1,753,001	-	-	1,753,001
Capital assets being depreciated:				
Infrastructure	55,055,736	1,083,407	-	56,139,143
Machinery and equipment	344,961	-	-	344,961
Vehicles	174,692	-	-	174,692
Total capital assets being depreciated	55,575,389	1,083,407	-	56,658,796
Less accumulated depreciation for:				
Infrastructure	(17,869,187)	(1,173,093)	-	(19,042,280)
Machinery and equipment	(341,132)	(2,011)	-	(343,143)
Vehicles	(174,692)	-	-	(174,692)
Total accumulated depreciation	(18,385,011)	(1,175,104)	-	(19,560,115)
Total capital assets being depreciated, net	37,190,378	(91,697)	-	37,098,681
Business activities capital assets, net	\$ 38,943,379	\$ (91,697)	\$ -	\$ 38,851,682

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Total capital assets not being depreciated	369,002	-	-	369,002
Capital assets being depreciated:				
Infrastructure	14,589,798	1,083,408	-	15,673,206
Machinery and equipment	299,721	-	-	299,721
Total capital assets being depreciated	14,889,519	1,083,408	-	15,972,927
Less accumulated depreciation for:				
Infrastructure	(2,740,062)	(362,922)	-	(3,102,984)
Machinery and equipment	(298,775)	(473)	-	(299,248)
Total accumulated depreciation	(3,038,837)	(363,395)	-	(3,402,232)
Total Water capital assets being depreciated, net	12,219,684	720,013	-	12,939,697
<u>Business-type Activities: Sewer</u>				
Capital assets being depreciated:				
Land	1,383,999	-	-	1,383,999
Total capital assets not being depreciated	1,383,999	-	-	1,383,999
Capital assets being depreciated:				
Infrastructure	40,465,937	-	-	40,465,937
Machinery and equipment	45,240	-	-	45,240
Vehicles	174,692	-	-	174,692
Total capital assets being depreciated	40,685,869	-	-	40,685,869
Less accumulated depreciation for:				
Infrastructure	(15,129,124)	(810,172)	-	(15,939,296)
Machinery and equipment	(42,357)	(1,538)	-	(43,895)
Vehicles	(174,692)	-	-	(174,692)
Total accumulated depreciation	(15,346,173)	(811,710)	-	(16,157,883)
Total Sewer capital assets being depreciated, net	26,723,695	(811,710)	-	25,911,985
Total Business-type activities - capital assets, net	\$ 38,943,379	\$ (91,697)	\$ -	\$ 38,851,682
Depreciation expense was charged to functions/programs as follows:				
<u>Governmental Activities:</u>				
General government	\$ 40,147			
Public safety	117,058			
Public works	126,797			
Culture and recreation	38,501			
Total Governmental Activities	\$ 322,503			
<u>Business-Type Activities:</u>				
Water	\$ 363,395			
Sewer	811,709			
Total Business-Type Activities	\$ 1,175,104			

#### D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In			
	General Fund	Nonmajor Funds	Total	
General Fund	\$ -	\$ 10,000	\$ 10,000	(1)
Nonmajor Governmental Funds	22,000	14,265	36,265	(2)
Water Enterprise Fund	120,795	-	120,795	(3)
Sewer Enterprise Fund	300,101	-	300,101	(3)
Total	<u>\$ 442,896</u>	<u>\$ 24,265</u>	<u>\$ 467,161</u>	

(1) Transfers to nonmajor funds to supplement harbor boat purchase.

(2) Transfers to general fund to supplement operating budgets. Transfer between nonmajor funds to supplement harbor boat purchase.

(3) Transfers to General Fund for indirect costs.

#### E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Type	Interest Rate	Maturity Date	July 1, 2011	Additions	Retirements	June 30, 2012
BAN	1.10%	03/28/12	\$ 116,000		\$ (116,000)	\$ -
BAN	0.06%	03/28/13	-	93,000	-	93,000
Total Governmental Notes			<u>116,000</u>	<u>93,000</u>	<u>(116,000)</u>	<u>93,000</u>
Interim Note	0.12%	12/31/13	-	111,262	-	111,262
Total Business-Type Notes - Water			<u>-</u>	<u>111,262</u>	<u>-</u>	<u>111,262</u>
Total Notes Payable			<u>\$ 116,000</u>	<u>\$ 204,262</u>	<u>\$ (116,000)</u>	<u>\$ 204,262</u>

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund and enterprise funds, respectively. Temporary notes of the Governmental Funds outstanding at June 30, 2012 were issued for the purchase of a harbor patrol boat; the interim note in the Water Fund outstanding on that date was issued for the construction of a water tank.



## F. Long-Term Obligations

Bond and Note Indebtedness – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5.0 percent of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

MWPAT Loan Subsidies – As previously noted in Note I. B., the Town has entered into loan agreements with the MWPAT. It is expected that the Town will be subsidized by MWPAT on an annual basis for principal in the amount of \$260,643 until maturity. For the year ended June 30, 2012, total principal subsidies received was \$36,084, reported within the Governmental and Business-type Sewer Funds as \$24,009 and \$12,075, respectively.

Advanced Refunding – In a prior year, certain callable water and sewer bonds were defeased through the issuance of refunding bonds. The non-callable portion of the bonds remained obligations of the Town, and the Town pays the debt service payments on these non-callable bonds through the annual, budget appropriation process. The final portion of the non-callable bonds matured on March 15, 2012. As a result of the advanced refunding, the Town was able to lower its annual debt service requirement with the economic difference between the present value of the debt payments of the old and new debt of \$765,000. This amount was amortized over the remaining life of the old bonds using a straight line methodology. This amount was fully amortized during the year ended June 30, 2012.

Authorized and Unissued Debt – At June 30, 2012, the Town had authorized and unissued debt as follows:

<u>Project</u>	<u>Amount</u>
Environmental Remediation	\$ 100,000
Town Creek Culvert	1,200,000
Water	<u>3,271,153</u>
Total authorized and unissued	<u>\$ 4,671,153</u>

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2012 debt assessment to the Town is approximated below:

<u>Related Entity (unaudited)</u>	<u>Principal Amount</u>	<u>Percent</u>	<u>Assessment Amount (debt portion)</u>
Triton Regional School District	\$ 20,005,000	35.80%	\$ 832,836

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2012:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>						
General Obligation Bonds	2027	3.0 - 4.0%	\$ 665,000	\$ -	\$ (65,000)	\$ 600,000
MWPAT Note	2019	Varies	719,528	-	(71,116)	648,412
Total Governmental Bond and Note Indebtedness			1,384,528	-	(136,116)	1,248,412
<u>Business-type Activities - Water</u>						
General Obligation Bond	2012	4.0 - 5.3%	295,000	-	(295,000)	-
General Obligation Refunding Bond	2030	3.5 - 5.0%	10,050,000	-	(35,000)	10,015,000
MWPAT Note	2030	2.0%	2,255,545	-	(92,644)	2,162,901
Total Water Bond and Note Indebtedness			12,600,545	-	(422,644)	12,177,901
<u>Business-type Activities - Sewer</u>						
General Obligation Bond	2031	3.0 - 4.0%	3,940,000	-	(200,000)	3,740,000
General Obligation Refunding Bonds	2019	3.5 - 4.0%	1,990,000	-	(325,000)	1,665,000
MWPAT Note	2018	Varies	327,100	-	(39,600)	287,500
Total Sewer Bond and Note Indebtedness			6,257,100	-	(564,600)	5,692,500
Total Business-type Bond and Note Indebtedness			18,857,645	-	(987,244)	17,870,401
Total Long-Term Bond and Note Indebtedness - All			\$ 20,242,173	\$ -	\$ (1,123,360)	\$ 19,118,813

During the year ended June 30, 2012, the following reflects the activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<u>Governmental Activities:</u>					
Bond and note indebtedness	\$ 1,384,528	\$ -	\$ (136,116)	\$ 1,248,412	\$ 111,116
Capital lease obligations	174,270	-	(83,637)	90,633	87,792
Post-closure landfill monitoring	344,500	-	(20,000)	324,500	20,000
Compensated absences, net	780,305	21,923	-	802,228	200,557
Other post employment benefits	650,904	510,012	(124,293)	1,036,623	-
Total Governmental Activities	\$ 3,334,507	\$ 531,935	\$ (364,046)	\$ 3,502,396	\$ 419,465
<u>Business-type Activities: Water</u>					
Bond and note indebtedness	\$12,600,545	\$ -	\$ (422,644)	\$ 12,177,901	\$ 449,516
Total Business-type Activities: Water and Sewer	12,600,545	-	(422,644)	12,177,901	449,516
<u>Business-type Activities: Sewer</u>					
Bond and note indebtedness	6,257,100	-	(564,600)	5,692,500	546,100
Compensated absences, net	57,296	4,189	-	61,485	15,371
Other post employment benefits	35,914	28,127	(6,855)	57,186	-
Total Business-type Activities: Sewer	6,350,310	32,316	(571,455)	5,811,171	561,471
Total Business-type Activities: All	\$18,950,855	\$ 32,316	\$ (994,099)	\$ 17,989,072	\$ 1,010,987

Future Debt Payoff - Payments on general long-term debt obligation bonds due in future years consist of the following:

*Governmental Activities - Total Bond and Note Indebtedness*

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2013	\$ 111,116	\$ (22,408)	\$ 88,708	\$ 53,577	\$ (21,735)	\$ 31,842	\$ 120,550
2014	115,299	(23,378)	91,921	49,587	(19,433)	30,154	122,075
2015	119,483	(23,052)	96,431	42,829	(17,048)	25,781	122,212
2016	119,483	(23,247)	96,236	37,347	(14,732)	22,615	118,851
2017	123,666	(23,460)	100,206	31,806	(12,421)	19,385	119,591
2018 - 2022	459,365	(75,908)	383,457	79,471	(18,444)	61,027	444,484
2023 - 2027	200,000	-	200,000	20,000	-	20,000	220,000
Total	\$ 1,248,412	\$ (191,453)	\$ 1,056,959	\$ 314,617	\$ (103,813)	\$ 210,804	\$ 1,267,763

*Business-type Activities: Water - Bond and Note Indebtedness*

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2013	\$ 449,516	\$ -	\$ 449,516	\$ 468,105	\$ -	\$ 468,105	\$ 917,621
2014	466,425	-	466,425	451,695	-	451,695	918,120
2015	483,373	-	483,373	434,647	-	434,647	918,020
2016	500,361	-	500,361	416,961	-	416,961	917,322
2017	517,388	-	517,388	398,632	-	398,632	916,020
2018 - 2022	2,883,816	-	2,883,816	1,684,737	-	1,684,737	4,568,553
2023 - 2027	3,531,011	-	3,531,011	1,011,892	-	1,011,892	4,542,903
2028 - 2031	3,346,011	-	3,346,011	267,381	-	267,381	3,613,392
Total	\$ 12,177,901	\$ -	\$ 12,177,901	\$ 5,134,050	\$ -	\$ 5,134,050	\$ 17,311,951

*Business-type Activities: Sewer - Bond and Note Indebtedness*

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2013	\$ 546,100	\$ -	\$ 546,100	\$ 228,627	\$ (19,886)	\$ 208,741	\$ 754,841
2014	551,200	(11,194)	540,006	189,238	(7,499)	181,739	721,745
2015	552,400	(10,925)	541,475	169,474	(7,201)	162,273	703,748
2016	423,700	(11,057)	412,643	151,403	(6,051)	145,352	557,995
2017	385,000	(11,298)	373,702	136,893	(4,877)	132,016	505,718
2018 - 2022	1,494,100	(24,716)	1,469,384	475,033	(3,633)	471,400	1,940,784
2023 - 2027	980,000	-	980,000	249,000	-	249,000	1,229,000
2028 - 2031	760,000	-	760,000	60,800	-	60,800	820,800
Total	\$ 5,692,500	\$ (69,190)	\$ 5,623,310	\$ 1,660,468	\$ (49,147)	\$ 1,611,321	\$ 7,234,631

*Business-type Activities - Total Bond and Note Indebtedness*

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
2013	\$ 995,616	\$ -	\$ 995,616	\$ 696,732	\$ (19,886)	\$ 676,846	\$ 1,672,462
2014	1,017,625	(11,194)	1,006,431	640,933	(7,499)	633,434	1,639,865
2015	1,035,773	(10,925)	1,024,848	604,121	(7,201)	596,920	1,621,768
2016	924,061	(11,057)	913,004	568,364	(6,051)	562,313	1,475,317
2017	902,388	(11,298)	891,090	535,525	(4,877)	530,648	1,421,738
2018 - 2022	4,377,916	(24,716)	4,353,200	2,159,770	(3,633)	2,156,137	6,509,337
2023 - 2027	4,511,011	-	4,291,011	1,072,692	-	1,072,692	5,363,703
2028 - 2031	4,106,011	-	4,106,011	328,181	-	328,181	4,434,192
Total	\$ 17,870,401	\$ (69,190)	\$ 17,581,211	\$ 6,606,318	\$ (49,147)	\$ 6,557,171	\$ 24,138,382

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2010	\$ 453,717	49.5%	\$ 454,883
June 30, 2011	\$ 472,158	50.9%	\$ 686,818
June 30, 2012	\$ 538,139 *	24.3%	\$1,093,809

\* The AOPEBC at June 30, 2012 was charged to the following functional programs in the Statement of Activities as follows: General Government \$88,489; Public Safety \$336,949; Public Works \$51,055; Health and Human Services \$12,498; Culture and Recreation \$11,876; Community Development \$9,144; and Sewer \$28,128.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2012 for the most recent actuarial valuation performed as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 6,989,364
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,989,364</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 3,628,492
UAAL as a percentage of covered payroll	192.62%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

Methods and Assumptions – projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the 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 valuation are as follows:

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay
Remaining amortization period	30 years as of June 30, 2012
Interest discount rate	4% per year, net of investment expenses
Healthcare/Medical cost trend rate	7.5% grading down to 4.5% in year 2019 and thereafter

- E. Commitments and Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2012, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2012.

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

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

- F. Landfill Closure and Post-Closure Care Costs** – The Town’s landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions (“post-closure care”) at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring; \$324,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

#### **IV. Implementation of New GASB Pronouncements**

##### **A. Current Year Implementation**

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of GASB 57 are effective for financial statements for periods beginning after June 15, 2011 (fiscal year 2013). Statement 57 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The adoption of GASB 57 did not have a material effect on its financial statements

##### **B. Future Year Implementations**

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2013). The Town does not expect that the adoption of GASB 60 will have a material effect on its financial statements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 are effective for financial statements for periods beginning after June 15, 2012 (fiscal year 2013). The Town does not expect that the adoption of GASB 61 will have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011 (fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 65; *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 66; *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 67; *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68; Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). The Town believes the adoption of this statement will have a material impact on the financial statements.

**TOWN OF SALISBURY MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012**

**SCHEDULES OF FUNDING PROGRESS**

**Pension System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2011	\$ 278,332,006	\$ 536,115,536	\$ 257,783,530	51.9%	\$ 119,707,156	215.3%
1/1/2008	\$ 301,420,965	\$ 445,171,554	\$ 143,750,589	67.7%	\$ 111,726,856	128.7%
1/1/2006	\$ 261,327,047	\$ 376,034,621	\$ 114,707,574	69.5%	\$ 98,641,094	116.3%

**Other Post Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2012	\$ -	\$ 6,989,364	\$ 6,989,364	0.0%	\$ 3,628,492	192.6%
6/30/2009	\$ -	\$ 6,958,284	\$ 6,958,284	0.0%	\$ 3,700,000	188.1%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Pension System**

Fiscal Year Ended June 30,	Essex Regional Retirement System			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2012	\$ 21,084,190	\$ 21,084,190	100.0%	\$ 846,240	4.0%
2011	\$ 19,136,746	\$ 19,136,746	100.0%	\$ 699,024	3.7%
2010	\$ 18,258,062	\$ 18,258,062	100.0%	\$ 689,851	3.8%

**Other Post Employment Benefits**

Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2012	\$ 533,560	\$ 131,148	24.6%
2011	\$ 472,158	\$ 240,223	50.9%
2010	\$ 450,686	\$ 224,544	49.8%

See accompanying independent auditor's report.



TOWN OF SALISBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Positive
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Negative)
<b>Revenues:</b>						
Property Taxes	\$ 16,014,501	\$ 15,825,291	\$ 15,759,183	\$ -	\$ 15,759,183	\$ (66,108)
Intergovernmental	917,155	917,155	984,679	-	984,679	67,524
Motor Vehicle and Other Excise	960,000	960,000	952,898	-	952,898	(7,102)
Departmental and Other Revenue	501,642	501,642	621,052	-	621,052	119,410
Licenses and Permits	239,000	239,000	346,043	-	346,043	107,043
Penalties and Interest	125,000	125,000	98,461	-	98,461	(26,539)
Fines and Forfeitures	75,000	75,000	105,257	-	105,257	30,257
Investment Income	10,000	10,000	7,850	-	7,850	(2,150)
Total Revenues	18,842,298	18,653,088	18,875,423	-	18,875,423	222,335
<b>Expenditures:</b>						
General government	1,543,335	1,548,567	1,499,395	25,735	1,525,130	23,437
Public safety	3,390,509	3,439,063	3,344,370	53,000	3,397,370	41,693
Education	10,461,115	10,461,115	10,461,113	-	10,461,113	2
Public works	1,068,370	1,092,817	1,036,492	57,500	1,093,992	(1,175)
Health and human services	356,731	356,590	382,871	-	382,871	(26,281)
Culture and recreation	195,058	194,853	176,218	15,251	191,469	3,384
Fringe and pension benefits	1,926,132	1,948,331	1,930,809	-	1,930,809	17,522
State and county tax assessments	168,550	168,554	167,294	-	167,294	1,260
Debt service	275,482	196,468	196,242	-	196,242	226
Total Expenditures	19,385,282	19,406,358	19,194,804	\$ 151,486	19,346,290	60,068
<b>Other Financing Sources (Uses):</b>						
Transfers in	420,896	420,896	442,896		442,896	22,000
Transfers out	(10,000)	(10,000)	(10,000)		(10,000)	-
Total Other Financing Sources (Uses)	410,896	410,896	432,896		432,896	22,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(132,088)	(342,374)	\$ 113,515		\$ (37,971)	\$ 304,403
<b>Other Budgetary Items:</b>						
Prior year encumbrances	190,680	190,680				
Prior year appropriation deficit	(58,592)	(58,592)				
Free cash	-	210,286				
Total Other Budgetary Items	132,088	342,374				
<b>Net Budget</b>	\$ -	\$ -				

See accompanying independent auditors' report.

See notes to the required supplementary information of this schedule.

## TOWN OF SALISBURY, MASSACHUSETTS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

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#### I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town's annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2012, Town Meeting approved \$210,286 in supplemental budgetary changes which were funded from free cash.

The Finance Director has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town's accounting system.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2012, is as follows:

Net change in fund balance, budgetary basis	\$ 113,515
<i>Basis of accounting differences:</i>	
Revenue for on-behalf pension payment	76,546
Expenditure for on-behalf pension payment	( 76,546)
<i>Perspective difference:</i>	
Interest income earned on stabilization fund	<u>2,646</u>
Net change in fund balance, GAAP basis	<u>\$ 116,161</u>

Appropriation Deficits – During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice removal costs and veterans benefits. These over expenditures will be funded through available funds during fiscal year 2012.