

TOWN OF HADLEY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Hadley, 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 Hadley, Massachusetts, 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 of Hadley's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hadley, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary

comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Funding Progress – OPEB be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath + Company P.C.

May 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Hadley's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, and intergovernmental. The business-type activities include sewer activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compli-

ance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 27,879,554 (i.e., net assets), a decrease of \$ (92,892) in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance surplus of \$ 7,918,343, an increase of \$ 89,371 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 683,579, a decrease of \$ (466,320) in comparison with the (re-stated) prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 7,510,518, a decrease of \$ (1,040,571) in comparison with the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 8,749,622	\$ 9,321,720	\$ 794,905	\$ 631,478	\$ 9,544,527	\$ 9,953,198
Capital assets	<u>27,141,481</u>	<u>27,987,505</u>	<u>2,647,996</u>	<u>2,757,471</u>	<u>29,789,477</u>	<u>30,744,976</u>
Total Assets	35,891,103	37,309,225	3,442,901	3,388,949	39,334,004	40,698,174
Long-term liabilities outstanding	10,800,752	11,247,425	91,986	142,752	10,892,738	11,390,177
Other liabilities	<u>546,970</u>	<u>1,304,670</u>	<u>14,742</u>	<u>30,881</u>	<u>561,712</u>	<u>1,335,551</u>
Total Liabilities	11,347,722	12,552,095	106,728	173,633	11,454,450	12,725,728
Net assets:						
Invested in capital assets, net	20,206,348	20,291,192	2,647,996	2,692,471	22,854,344	22,983,663
Restricted	4,170,689	4,153,361	-	-	4,170,689	4,153,361
Unrestricted	<u>166,344</u>	<u>312,577</u>	<u>688,177</u>	<u>522,845</u>	<u>854,521</u>	<u>835,422</u>
Total Net Assets	\$ <u>24,543,381</u>	\$ <u>24,757,130</u>	\$ <u>3,336,173</u>	\$ <u>3,215,316</u>	\$ <u>27,879,554</u>	\$ <u>27,972,446</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,524,349	\$ 2,548,610	\$ 789,027	\$ 805,627	\$ 3,313,376	\$ 3,354,237
Operating grants and contributions	3,413,378	3,379,305	-	-	3,413,378	3,379,305
Capital grants and contributions	501,119	366,700	-	-	501,119	366,700
General revenues:						
Property taxes	9,486,395	9,139,948	-	-	9,486,395	9,139,948
Excises	536,636	476,727	-	-	536,636	476,727
Penalties, interest and other taxes	1,055,820	1,026,849	6,936	9,597	1,062,756	1,036,446
Grants and contributions not restricted	705,452	780,596	-	-	705,452	780,596
Investment income	95,348	94,235	2,111	2,178	97,459	96,413
Miscellaneous	17,187	27,660	-	-	17,187	27,660
Total Revenues	<u>18,335,684</u>	<u>17,840,630</u>	<u>798,074</u>	<u>817,402</u>	<u>19,133,758</u>	<u>18,658,032</u>
Expenses:						
General government	1,452,550	1,477,466	-	-	1,452,550	1,477,466
Public safety	1,900,058	1,851,655	-	-	1,900,058	1,851,655
Education	8,573,793	8,271,068	-	-	8,573,793	8,271,068
Public works	2,722,935	2,539,357	-	-	2,722,935	2,539,357
Health and human services	149,026	146,124	-	-	149,026	146,124
Culture and recreation	261,154	219,853	-	-	261,154	219,853
Employee benefits	2,510,888	2,410,653	-	-	2,510,888	2,410,653
Interest	206,976	222,828	-	-	206,976	222,828
Intergovernmental	707,053	608,790	-	-	707,053	608,790
Sewer operations	-	-	742,217	730,771	742,217	730,771
Total Expenses	<u>18,484,433</u>	<u>17,747,794</u>	<u>742,217</u>	<u>730,771</u>	<u>19,226,650</u>	<u>18,478,565</u>
Change in net assets before transfers	(148,749)	92,836	55,857	86,631	(92,892)	179,467
Transfers in (out)	(65,000)	(8,232)	65,000	8,232	-	-
Change in net assets	(213,749)	84,604	120,857	94,863	(92,892)	179,467
Net assets - beginning of year	<u>24,757,130</u>	<u>24,672,526</u>	<u>3,215,316</u>	<u>3,120,453</u>	<u>27,972,446</u>	<u>27,792,979</u>
Net assets - end of year	<u>\$ 24,543,381</u>	<u>\$ 24,757,130</u>	<u>\$ 3,336,173</u>	<u>\$ 3,215,316</u>	<u>\$ 27,879,554</u>	<u>\$ 27,972,446</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 27,879,554, a decrease of \$ (92,892) from the prior year.

The largest portion of net assets, \$ 22,854,344, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay

this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 4,170,689 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 854,521, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (213,749). Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 24,420
State and local revenues over budget	444,035
Budgetary appropriations unspent by departments	158,714
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(1,101,371)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	3,542
Reversal of retroactive pay increase accrued in prior year	29,699
Reverse ATB liability interest accrual	(9,908)
Other uses raised in the current year	40,729
Change in Stabilization fund	640,200
Major fund - Water revenue in excess of expenditures	73,909
Major fund - Community preservation revenue in excess of expenditures	160,901
Non-major fund expenditures and transfers out in excess of revenue and transfers in	(375,499)
Depreciation expense in excess of principal debt service	(262,567)
Capital expenditures funded by non-bond funds	392,114
Change in net OPEB obligation	(630,959)
Changes in accruals and long-term liabilities other than debt	198,292
Total	<u>\$ (213,749)</u>

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 120,857. Key elements of this change are as follows:

	<u>Sewer</u>
Operating income	\$ 56,021
Non-operating revenue (expense), net	(164)
Transfers, net	<u>65,000</u>
Change in net assets	<u>\$ 120,857</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 7,918,343, an increase of \$ 89,371 in comparison with the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 24,420
State and local revenues over budget	444,035
Budgetary appropriations unspent by departments	158,714
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(1,101,371)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	3,542
Reversal of retroactive pay increase accrued in prior year	29,699
Reverse ATB liability interest accrual	(9,908)
Other uses raised in the current year	40,729
Change in Stabilization fund	640,200
Major fund - Water revenue in excess of expenditures	73,909
Major fund - Community preservation revenue in excess of expenditures	160,901
Non-major fund expenditures and transfers out in excess of revenue and transfers in	<u>(375,499)</u>
Total	<u>\$ 89,371</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 683,579, while total fund balance was \$ 3,563,566. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% of Total 2012 General Fund Expenditures</u>
Unassigned fund balance	\$ 683,579	\$ 1,149,899	\$ (466,320)	4.9%
Total fund balance	3,563,566	3,333,506	230,060	25.3%

The fund balance of the general fund increased by \$ 230,060 during the current fiscal year. Key elements of this change are as follows:

General Fund Operating Results:	
Tax revenue collected in excess of budget	\$ 24,420
State and local revenues over budget	444,035
Budgetary appropriations unspent by departments	158,714
Use of free cash (fund balance) and other surplus as funding sources for non-recurring items	(1,101,371)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current period	3,542
Reversal of retroactive pay increase accrued in prior year	29,699
Reverse ATB liability interest accrual	(9,908)
Other uses raised in the current year	40,729
Change in Stabilization fund	<u>640,200</u>
Total	<u>\$ 230,060</u>

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

	<u>06/30/12</u>	<u>06/30/11</u>	<u>Change</u>
Stabilization fund	\$ 2,025,248	\$ 1,741,323	\$ 283,925
Capital stabilization fund	<u>397,222</u>	<u>40,947</u>	<u>356,275</u>
	<u>\$ 2,422,470</u>	<u>\$ 1,782,270</u>	<u>\$ 640,200</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 688,177. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 45,800. Major reasons for these amendments include:

- Increase in Selectboard appropriations of \$ 21,000.
- Increase in Assessor appropriations of \$ 2,800.
- Increase in the reserve fund of \$ 6,000.
- Transfer to the OPEB trust of \$ 16,000.

Of this increase, \$ 39,800 was funded from free cash and \$ 6,000 from overlay surplus.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 29,789,477 (net of accumulated depreciation), a decrease of \$ (955,499) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment and infrastructure.

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

- Water construction in progress costs of \$ 43,024 (Dwyers Bridge Water Main).
- School and Library text books of \$ 72,470.
- Purchase of computer and technology equipment of \$ 43,056.
- Purchase of a police cruiser of \$ 31,755 and radio communications equipment of \$ 28,272.
- Purchase of a school bus of \$ 90,862.
- Purchase of a highway vehicle of \$ 15,275.
- Senior center roof repairs of \$ 67,400.
- Depreciation expense of \$ (1,238,138) for governmental and \$ (109,475) for business-type assets.

Long-term debt. At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$ 7,510,518, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

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

Ms. Gail Weiss
Town Accountant
Town of Hadley
100 Middle Street
Hadley, MA 01035

TOWN OF HADLEY, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 5,019,654	\$ 637,004	\$ 5,656,658
Investments	3,379,600	120,858	3,500,458
Receivables:			
Property taxes	152,164	-	152,164
Excises	54,403	-	54,403
User fees	61,247	37,043	98,290
Intergovernmental	26,654	-	26,654
Noncurrent:			
Receivables:			
Property taxes	55,900	-	55,900
Land and construction in progress	658,641	11,000	669,641
Capital assets, net of accumulated depreciation	<u>26,482,840</u>	<u>2,636,996</u>	<u>29,119,836</u>
TOTAL ASSETS	35,891,103	3,442,901	39,334,004
LIABILITIES			
Current:			
Warrants payable	147,528	10,035	157,563
Accrued payroll and withholdings	191,045	4,707	195,752
Accrued interest payable	56,560	-	56,560
Notes payable	95,900	-	95,900
Tax refunds payable	46,389	-	46,389
Other liabilities	9,548	-	9,548
Current portion of long-term liabilities:			
Bonds payable	890,430	-	890,430
Landfill closure	6,400	-	6,400
Noncurrent:			
Bonds payable, net of current portion	6,620,088	-	6,620,088
Landfill closure, net of current portion	108,800	-	108,800
Accrued compensated absences	374,905	27,082	401,987
Net OPEB obligation	<u>2,800,129</u>	<u>64,904</u>	<u>2,865,033</u>
TOTAL LIABILITIES	11,347,722	106,728	11,454,450
NET ASSETS			
Invested in capital assets, net of related debt	20,206,348	2,647,996	22,854,344
Restricted for:			
State and federal grants	3,705,177	-	3,705,177
Permanent funds:			
Nonexpendable	64,880	-	64,880
Expendable	400,632	-	400,632
Unrestricted	<u>166,344</u>	<u>688,177</u>	<u>854,521</u>
TOTAL NET ASSETS	\$ <u>24,543,381</u>	\$ <u>3,336,173</u>	\$ <u>27,879,554</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,452,550	\$ 542,699	\$ 138,163	\$ -	\$ (771,688)	\$ -	\$ (771,688)
Public safety	1,900,058	305,227	14,788	-	(1,580,043)	-	(1,580,043)
Education	8,573,793	309,567	3,119,661	-	(5,144,565)	-	(5,144,565)
Public works	2,722,935	1,280,125	84,746	501,119	(856,945)	-	(856,945)
Health and human services	149,026	46,045	44,480	-	(58,501)	-	(58,501)
Culture and recreation	261,154	40,686	11,540	-	(208,928)	-	(208,928)
Employee benefits	2,510,888	-	-	-	(2,510,888)	-	(2,510,888)
Interest	206,976	-	-	-	(206,976)	-	(206,976)
Intergovernmental	707,053	-	-	-	(707,053)	-	(707,053)
Total Governmental Activities	18,484,433	2,524,349	3,413,378	501,119	(12,045,587)	-	(12,045,587)
Business-Type Activities:							
Sewer operations	742,217	789,027	-	-	-	46,810	46,810
Total Business-Type Activities	742,217	789,027	-	-	-	46,810	46,810
Total All Activities	\$ 19,226,650	\$ 3,313,376	\$ 3,413,378	\$ 501,119	(12,045,587)	46,810	(11,998,777)
General Revenues:							
Property taxes					9,486,395	-	9,486,395
Excises					536,636	-	536,636
Penalties, interest and other taxes					1,055,820	6,936	1,062,756
Grants and contributions not restricted to specific programs					705,452	-	705,452
Investment income					95,348	2,111	97,459
Miscellaneous					17,187	-	17,187
Total general revenues					11,896,838	9,047	11,905,885
Change in Net Assets before transfers					(148,749)	55,857	(92,892)
Transfers in (out)					(65,000)	65,000	-
Change in Net Assets					(213,749)	120,857	(92,892)
Net Assets:							
Beginning of year					24,757,130	3,215,316	27,972,446
End of year					\$ 24,543,381	\$ 3,336,173	\$ 27,879,554

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Water Fund</u>	<u>Community Preservation Act Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 1,546,557	\$ 880,583	\$ 419,200	\$ 2,173,314	\$ 5,019,654
Investments	2,323,990	40,988	609,393	405,229	3,379,600
Receivables:					
Property taxes	204,270	-	3,794	-	208,064
Excises	54,403	-	-	-	54,403
User fees	-	61,247	-	-	61,247
Intergovernmental	-	-	-	26,654	26,654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 4,129,220</u>	<u>\$ 982,818</u>	<u>\$ 1,032,387</u>	<u>\$ 2,605,197</u>	<u>\$ 8,749,622</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 77,935	\$ 19,897	\$ 6,500	\$ 43,196	\$ 147,528
Accrued payroll and withholdings	182,081	5,521	-	3,443	191,045
Deferred revenues	258,674	61,247	3,794	17,154	340,869
Notes payable	-	65,900	-	30,000	95,900
Tax refunds payable	46,389	-	-	-	46,389
Other liabilities	575	-	-	8,973	9,548
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	565,654	152,565	10,294	102,766	831,279
Fund Balances:					
Nonspendable	-	-	-	64,880	64,880
Restricted	-	755,380	-	2,462,798	3,218,178
Committed	2,761,636	51,157	1,022,093	3,824	3,838,710
Assigned	118,351	23,716	-	-	142,067
Unassigned	683,579	-	-	(29,071)	654,508
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>3,563,566</u>	<u>830,253</u>	<u>1,022,093</u>	<u>2,502,431</u>	<u>7,918,343</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,129,220</u>	<u>\$ 982,818</u>	<u>\$ 1,032,387</u>	<u>\$ 2,605,197</u>	<u>\$ 8,749,622</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total Governmental Fund Balances	\$ 7,918,343
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	27,141,481
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	340,869
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(56,560)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, landfill closure, accrued compensated absences and net OPEB obligation are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(10,800,752)</u>
Net Assets of Governmental Activities	<u>\$ 24,543,381</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Water Fund</u>	<u>Community Preservation Act Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 9,225,844	\$ -	\$ 210,530	\$ -	\$ 9,436,374
Excises	526,505	-	-	-	526,505
Penalties, interest and other taxes	1,045,439	9,936	445	-	1,055,820
Charges for services	494,820	1,137,288	-	621,123	2,253,231
Intergovernmental	2,741,763	-	110,568	1,767,618	4,619,949
Licenses and permits	194,883	-	-	-	194,883
Fines and forfeitures	45,709	-	-	-	45,709
Investment income	63,519	1,742	13,987	16,100	95,348
Miscellaneous	13,423	-	-	3,763	17,186
	<u>14,351,905</u>	<u>1,148,966</u>	<u>335,530</u>	<u>2,408,604</u>	<u>18,245,005</u>
Total Revenues					
Expenditures:					
Current:					
General government	1,173,632	-	163,554	87,496	1,424,682
Public safety	1,650,125	-	-	124,559	1,774,684
Education	6,576,295	-	-	1,821,123	8,397,418
Public works	739,624	694,508	-	664,961	2,099,093
Health and human services	121,359	-	-	23,795	145,154
Culture and recreation	211,754	-	11,075	51,144	273,973
Employee benefits	1,873,898	206,580	-	-	2,080,478
Debt service	1,014,130	173,969	-	-	1,188,099
Intergovernmental	707,053	-	-	-	707,053
	<u>14,067,870</u>	<u>1,075,057</u>	<u>174,629</u>	<u>2,773,078</u>	<u>18,090,634</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	284,035	73,909	160,901	(364,474)	154,371
Other Financing Sources (Uses):					
Transfers in	17,238	-	-	71,213	88,451
Transfers out	(71,213)	-	-	(82,238)	(153,451)
	<u>(53,975)</u>	<u>-</u>	<u>-</u>	<u>(11,025)</u>	<u>(65,000)</u>
Total Other Financing Sources (Uses)					
Change in fund balance	230,060	73,909	160,901	(375,499)	89,371
Fund Equity, at Beginning of Year, as reclassified	<u>3,333,506</u>	<u>756,344</u>	<u>861,192</u>	<u>2,877,930</u>	<u>7,828,972</u>
Fund Equity, at End of Year	<u>\$ 3,563,566</u>	<u>\$ 830,253</u>	<u>\$ 1,022,093</u>	<u>\$ 2,502,431</u>	<u>\$ 7,918,343</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2012

Net Changes in Fund Balances - Total Governmental Funds	\$ 89,371												
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital asset purchases</td> <td style="text-align: right;">392,114</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,238,138)</td> </tr> </table> • Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">90,678</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">975,571</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">5,553</td> </tr> </table> • Some expenses reported in the statement of activities, such as landfill closure, accrued compensated absences and net OPEB obligation do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(528,898)</u></td> </tr> </table> 		Capital asset purchases	392,114	Depreciation	(1,238,138)		90,678	Repayments of debt	975,571		5,553		<u>(528,898)</u>
Capital asset purchases	392,114												
Depreciation	(1,238,138)												
	90,678												
Repayments of debt	975,571												
	5,553												
	<u>(528,898)</u>												
Change in Net Assets of Governmental Activities	\$ <u>(213,749)</u>												

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 9,201,424	\$ 9,201,424	\$ 9,201,424	\$ -
Excises	450,000	450,000	526,505	76,505
Penalties, interest and other taxes	740,000	740,000	1,045,439	305,439
Charges for services and licences and permits	647,491	647,491	689,703	42,212
Intergovernmental	1,514,106	1,514,106	1,552,520	38,414
Fines and forfeitures	54,000	54,000	45,709	(8,291)
Investment income	35,600	35,600	22,451	(13,149)
Miscellaneous	27,756	27,756	13,423	(14,333)
Transfers in	16,950	16,950	34,188	17,238
Other sources	<u>1,055,571</u>	<u>1,101,371</u>	<u>1,101,371</u>	<u>-</u>
Total Revenues and Other Sources	13,742,898	13,788,698	14,232,733	444,035
Expenditures and Other Uses:				
General government	1,154,565	1,168,865	1,147,263	21,602
Public safety	1,731,189	1,746,689	1,684,379	62,310
Education	5,379,273	5,379,273	5,378,912	361
Public works	890,374	890,374	771,456	118,918
Health and human services	138,177	138,177	121,261	16,916
Culture and recreation	218,133	218,133	213,516	4,617
Employee benefits	1,945,927	1,945,927	1,873,898	72,029
Debt service	1,008,807	1,008,807	1,004,222	4,585
Intergovernmental	564,429	564,429	707,053	(142,624)
Transfers out	671,295	687,295	687,295	-
Other uses	<u>40,729</u>	<u>40,729</u>	<u>40,729</u>	<u>-</u>
Total Expenditures and Other Uses	<u>13,742,898</u>	<u>13,788,698</u>	<u>13,629,984</u>	<u>158,714</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>602,749</u>	\$ <u>602,749</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Business-Type Activities</u>
	<u>Sewer Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 637,004
Investments	120,858
User fees	<u>37,043</u>
Total current assets	794,905
Noncurrent:	
Land	11,000
Capital assets, net of accumulated depreciation	<u>2,636,996</u>
Total noncurrent assets	<u>2,647,996</u>
TOTAL ASSETS	3,442,901
<u>LIABILITIES</u>	
Current:	
Warrants payable	10,035
Accrued payroll	<u>4,707</u>
Total current liabilities	14,742
Noncurrent:	
Accrued compensated absences	27,082
Net OPEB obligation	<u>64,904</u>
Total noncurrent liabilities	<u>91,986</u>
TOTAL LIABILITIES	106,728
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	2,647,996
Unrestricted	<u>688,177</u>
TOTAL NET ASSETS	\$ <u>3,336,173</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities
	<u>Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ <u>795,963</u>
Total Operating Revenues	795,963
Operating Expenses:	
Salaries and wages	244,126
Operating expenses	364,244
Capital outlay	4,916
Depreciation	109,475
Employee benefits	<u>17,181</u>
Total Operating Expenses	<u>739,942</u>
Operating Income	56,021
Nonoperating Revenues (Expenses):	
Investment income	2,111
Interest expense	<u>(2,275)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(164)</u>
Change in Net Assets, before transfers	55,857
Transfers	
Transfer in	<u>65,000</u>
Total Transfers	<u>65,000</u>
Change in Net Assets	120,857
Net Assets at Beginning of Year	<u>3,215,316</u>
Net Assets at End of Year	\$ <u><u>3,336,173</u></u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities
	<u>Sewer Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 791,784
Payments to vendors and employees	<u>(632,372)</u>
Net Cash Provided By Operating Activities	159,412
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Principal payments on bonds	(65,000)
Interest payments	<u>(2,275)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(67,275)</u>
<u>Cash Flows From Non Capital Financing Activities:</u>	
Transfer from Governmental Funds	<u>65,000</u>
Net Cash Provided by Non Capital Financing Activities	65,000
<u>Cash Flows From Investing Activities:</u>	
Investment income	2,111
Purchase of investments	<u>(1,096)</u>
Net Cash Provided By Investing Activities	<u>1,015</u>
Net Change in Cash and Short-Term Investments	158,152
Cash and Short Term Investments, Beginning of Year	<u>478,852</u>
Cash and Short Term Investments, End of Year	<u>\$ 637,004</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ 56,021
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	109,475
Changes in assets and liabilities:	
User fees	(4,179)
Warrants payable and accrued payroll	(16,139)
Accrued compensated absences	(866)
Net OPEB obligation	<u>15,100</u>
Net Cash Provided By Operating Activities	<u>\$ 159,412</u>

See notes to financial statements.

TOWN OF HADLEY, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>6,422</u>
Total Assets	6,422
 <u>LIABILITIES</u>	
Warrants payable	1,422
Deposits held in custody	<u>5,000</u>
Total Liabilities	\$ <u><u>6,422</u></u>

See notes to financial statements.

Town of Hadley, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2012, it was determined that no entities met the required GASB-14 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual govern-

mental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

- The *water fund*, which accounts for operations related to providing the Town's water services and supporting infrastructure. Although the Town voted to adopt enterprise fund legislation for water operations in fiscal year 1994, under the criteria established by GASB, it does not qualify as an enterprise fund since it does not fund all of its own debt / depreciation expense. Accordingly, it is included as a governmental fund under the GASB Statement No. 34 reporting model.
- The *community preservation act fund* is used to account for the state and local revenue set-aside for certain designated projects and activities allowable per Massachusetts legislation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major proprietary fund:

- The *sewer enterprise fund*, which accounts for operation of the Town's wastewater treatment facility and supporting infrastructure.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of

this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

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

E. Investments

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

Investments for the Town consist of certificates of deposit and governmental bonds. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$ 2,423.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of

capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20 - 40
Infrastructure	50
Vehicles	5 - 7
Equipment	10

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

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

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

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

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

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

K. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 14,351,905	\$ 14,067,870
Other financing sources/uses (GAAP basis)	<u>17,238</u>	<u>71,213</u>
Subtotal (GAAP basis)	14,369,143	14,139,083
Remove the effect of adding the Stabilization Fund to General Fund per GASB 54	(24,118)	616,082
Adjust tax revenue to accrual basis	(24,420)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(373,715)
Add end of year appropriation carryforwards to expenditures	-	377,257
To reverse the effect of non-budgeted State contributions for teachers retirement	(1,189,243)	(1,189,243)
To adjust for GAAP accruals	-	19,791
Recognize use of fund balance as funding source	1,101,371	-
Other sources/uses	<u>-</u>	<u>40,729</u>
Budgetary basis	<u>\$ 14,232,733</u>	<u>\$ 13,629,984</u>

D. Deficit Fund Equity

The following fund had a deficit as of June 30, 2012:

Capital project fund – public safety equipment	\$ (29,071)
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This deficit will be eliminated through future bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. Massachusetts General Law Chapter 44, section 55, limits deposits “in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The Town manages custodial credit risk by the diversification and choice of depository.

The Town approved an investment policy in April 2009. The policy limits unsecured bank deposits to no more than 5% of an institution's assets or 10% of the Town's cash balance.

As of June 30, 2012, \$ 725,654 of the Town's bank balance of \$ 5,951,580 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the Town's name. This balance represents the cash and cash equivalent portions of the Town's investment accounts.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, and the investment policy adopted by the Town in April 2009, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town manages credit risk by the diversification and prudent selection of investment instruments and choice of depository.

Presented below is the actual rating as of year-end for each investment of the Town:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End AAA/A1</u>
Certificates of deposit	\$ 3,131,229	\$ 3,131,229	\$ -
Governmental bonds	<u>369,229</u>	<u>-</u>	<u>369,229</u>
Total investments	<u>\$ 3,500,458</u>	<u>\$ 3,131,229</u>	<u>\$ 369,229</u>

B. Custodial Credit Risk

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

As previously noted, the Town adopted an investment policy in April 2009 that limits unsecured bank deposits to no more than 5% of an institution's assets or 10% of the Town's cash balance. In addition, the policy limits the Treasurer to investing in financial instruments included on a list produced

annually by the Commonwealth Division of Banks (commonly referred to as the “Legal List of Investments”). The policy further manages this risk by requiring any amount invested in bank accounts or certificates of deposit to be fully insured by FDIC or collateralized by a third party agreement.

\$ 2,290,193 of the Town’s investments of \$ 3,500,458 are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town’s brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and/or excess SIPC.

C. Concentration of Credit Risk

The Town places no limit on the amount they may invest in any one issuer. Investment limits were established in the policy adopted in April 2009, which is detailed above. Investments in one issuer that represent 5% or more of total investments are as follows:

Goldman Sachs BK USA	\$ 251,621
World Financial Network Bank	201,373
Easthampton Savings Bank CD	502,365

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. For the most part, the policy adopted in April 2009, establishes a one year investment term limit for applicable types of investments, such as U.S. Treasury notes and certificates of deposit.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of deposit	\$ 3,131,229	\$ 960,339	\$ 963,399	\$ 651,459	\$ 556,032
Governmental bonds	<u>369,229</u>	<u>35,357</u>	<u>333,872</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 3,500,458</u>	<u>\$ 995,696</u>	<u>\$ 1,297,271</u>	<u>\$ 651,459</u>	<u>\$ 556,032</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town did not have policies for foreign currency risk in fiscal year 2012. While the investment policy adopted in April 2009 does not speak specifically to foreign currency issues, this risk is managed by limiting the Treasurer to investments contained on the “Legal List of Investments”.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor’s for 100% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2012 consist of the following:

Real Estate		
2012	\$ 143,994	
Prior years	<u>1,750</u>	145,744
Personal Property		
2012	1,017	
Prior years	<u>2,445</u>	3,462
Tax Liens		51,110
Foreclosures		<u>3,954</u>
Total		<u>\$ 204,270</u>

6. Intergovernmental Receivables

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

7. Capital Assets

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

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 14,045,462	\$ 67,400	\$ -	\$ -	\$ 14,112,862
Machinery, equipment, and furnishings	8,120,685	281,690	(136,689)	170,590	8,436,276
Infrastructure	19,979,392	-	-	65,900	20,045,292
Total capital assets, being depreciated	42,145,539	349,090	(136,689)	236,490	42,594,430
Less accumulated depreciation for:					
Buildings and improvements	(5,699,514)	(379,876)	-	-	(6,079,390)
Machinery, equipment, and furnishings	(3,706,322)	(442,666)	136,689	-	(4,012,299)
Infrastructure	(5,604,305)	(415,596)	-	-	(6,019,901)
Total accumulated depreciation	(15,010,141)	(1,238,138)	136,689	-	(16,111,590)
Total capital assets, being depreciated, net	27,135,398	(889,048)	-	236,490	26,482,840
Capital assets, not being depreciated:					
Land	658,641	-	-	-	658,641
Construction in progress	193,466	43,024	-	(236,490)	-
Total capital assets, not being depreciated	852,107	43,024	-	(236,490)	658,641
Governmental activities capital assets, net	\$ 27,987,505	\$ (846,024)	\$ -	\$ -	\$ 27,141,481
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 3,073,516	\$ -	\$ -	\$ -	\$ 3,073,516
Machinery, equipment, and furnishings	257,527	-	-	-	257,527
Infrastructure	1,872,891	-	-	-	1,872,891
Total capital assets, being depreciated	5,203,934	-	-	-	5,203,934
Less accumulated depreciation for:					
Buildings and improvements	(1,579,895)	(61,470)	-	-	(1,641,365)
Machinery, equipment, and furnishings	(75,743)	(10,546)	-	-	(86,289)
Infrastructure	(801,825)	(37,459)	-	-	(839,284)
Total accumulated depreciation	(2,457,463)	(109,475)	-	-	(2,566,938)
Total capital assets, being depreciated, net	2,746,471	(109,475)	-	-	2,636,996
Capital assets, not being depreciated:					
Land	11,000	-	-	-	11,000
Total capital assets, not being depreciated	11,000	-	-	-	11,000
Business-type activities capital assets, net	\$ 2,757,471	\$ (109,475)	\$ -	\$ -	\$ 2,647,996

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 134,424
Public safety	175,681
Education	405,574
Public works	501,433
Culture and recreation	<u>21,026</u>
Total depreciation expense - governmental activities	<u>\$ 1,238,138</u>
Business-Type Activities:	
Sewer	<u>\$ 109,475</u>
Total depreciation expense - business-type activities	<u>\$ 109,475</u>

8. Warrants Payable

Warrants payable represents 2012 expenditures paid by July 15, 2012 as permitted by law.

9. Deferred Revenue

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

10. Tax Refunds Payable

This balance consists of an estimate of a refund due to Verizon for the abatement of 2009 property tax, plus 8% interest, as of June 30, 2012. This case was recently decided in favor of Verizon by the State Appellate Tax Board.

11. Anticipation Notes Payable

The Town had the following note outstanding at June 30, 2012:

	<u>Interest</u> Rate(s) %	<u>Date of</u> <u>Issue</u>	<u>Date of</u> <u>Maturity</u>	<u>Balance at</u> <u>June 30, 2012</u>
Bond anticipation	0.50	04/27/12	04/26/13	\$ <u>95,900</u>

The following summarizes activity in notes payable during fiscal year 2012:

	Balance Beginning <u>of Year</u>	New <u>Issues</u>	<u>Maturities</u>	Balance End of <u>Year</u>
Bond anticipation	\$ 370,900	\$ 95,900	\$ (370,900)	\$ 95,900
Total	\$ <u>370,900</u>	\$ <u>95,900</u>	\$ <u>(370,900)</u>	\$ <u>95,900</u>

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>June 30, 2012</u>
<u>Bonds Payable:</u>			
Municipal purpose refunding of 2006	06/15/14	3.85	\$ 375,000
Municipal purpose of 2009	09/15/19	2.0-3.25	1,780,000
Municipal purpose refunding of 2009	05/01/20	2.0-3.25	1,104,999
MWPAT DW-05-19	07/15/26	2.0	<u>4,250,519</u>
Total Governmental Activities Debt			\$ <u>7,510,518</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 890,430	\$ 179,055	\$ 1,069,485
2014	820,388	147,773	968,161
2015	660,446	127,721	788,167
2016	660,607	112,742	773,349
2017	610,871	97,331	708,202
2018 - 2022	2,307,129	273,775	2,580,904
2023 - 2027	<u>1,560,647</u>	<u>79,279</u>	<u>1,639,926</u>
Total	\$ <u>7,510,518</u>	\$ <u>1,017,676</u>	\$ <u>8,528,194</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2011	Additions	Reductions	Total Balance June 30, 2012	Less Current Portion	Equals Long-Term Portion June 30, 2012
<u>Governmental Activities</u>						
Bonds payable	\$ 8,486,089	\$ -	\$ (975,571)	\$ 7,510,518	\$ (890,430)	\$ 6,620,088
Other:						
Landfill closure	121,600	-	(6,400)	115,200	(6,400)	108,800
Accrued compensated absences	470,566	-	(95,661)	374,905	-	374,905
Net OPEB obligation	<u>2,169,170</u>	<u>630,959</u>	<u>-</u>	<u>2,800,129</u>	<u>-</u>	<u>2,800,129</u>
Total Governmental Activities	\$ <u>11,247,425</u>	\$ <u>630,959</u>	\$ <u>(1,077,632)</u>	\$ <u>10,800,752</u>	\$ <u>(896,830)</u>	\$ <u>9,903,922</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 65,000	\$ -	\$ (65,000)	\$ -	\$ -	\$ -
Other:						
Accrued compensated absences	27,948	-	(866)	27,082	-	27,082
Net OPEB obligation	<u>49,804</u>	<u>15,100</u>	<u>-</u>	<u>64,904</u>	<u>-</u>	<u>64,904</u>
Total Business-Type Activities	\$ <u>142,752</u>	\$ <u>15,100</u>	\$ <u>(65,866)</u>	\$ <u>91,986</u>	\$ <u>-</u>	\$ <u>91,986</u>

13. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$ 115,200 reported as landfill liability at June 30, 2012 represents the estimated cost of monitoring the landfill for the next 18 years. This amount is based on what it would cost to perform all closure and post-closure care in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. Restricted Net Assets

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

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

15. **Governmental Funds – Balances**

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

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

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

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

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes remaining balance of capital appropriations for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and the community preservation fund.

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

Unassigned - Represents amounts that are available to be spent in future periods and deficit fund balances.

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

	General Fund	Water Fund	Community Preservation Act Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 64,880	\$ 64,880
Total Nonspendable	\$ -	\$ -	\$ -	\$ 64,880	\$ 64,880
Restricted					
Bonded projects	\$ -	\$ -	\$ -	\$ 186,645	\$ 186,645
Special revenue funds	-	755,380	-	1,852,831	2,608,211
Expendable permanent funds	-	-	-	423,322	423,322
Total Restricted	\$ -	\$ 755,380	\$ -	\$ 2,462,798	\$ 3,218,178
Committed					
Water stabilization fund	\$ -	\$ 51,157	\$ -	\$ -	\$ 51,157
Stabilization fund	2,422,470	-	-	-	2,422,470
Special article balances	339,166	-	-	-	339,166
Community preservation fund	-	-	1,022,093	-	1,022,093
Capital project funds	-	-	-	3,824	3,824
Total Committed	\$ 2,761,636	\$ 51,157	\$ 1,022,093	\$ 3,824	\$ 3,838,710
Assigned					
Encumbrances	\$ 38,091	\$ 11,608	\$ -	\$ -	\$ 49,699
Reserved for expenditures	80,260	12,108	-	-	92,368
Total Assigned	\$ 118,351	\$ 23,716	\$ -	\$ -	\$ 142,067
Unassigned					
Unassigned	\$ 683,579	\$ -	\$ -	\$ -	\$ 683,579
Deficit fund balances	-	-	-	(29,071)	(29,071)
Total Unassigned	\$ 683,579	\$ -	\$ -	\$ (29,071)	\$ 654,508

16. Subsequent Events

A. Debt

Subsequent to June 30, 2012, the Town has incurred the following additional debt:

	Amount	Interest Rate %	Issue Date	Maturity Date
Bond anticipation	\$ 205,000	0.49%	08/15/12	04/26/13
Bond anticipation	\$ 269,787	0.49%	11/20/12	04/26/13

17. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government.

Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Self-Insurance - The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. The Trust contracts with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$ 150,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At March 31, 2012, according to the Trust's audited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$ 3 million, the Trust was in a surplus position of approximately \$ 24 million.

18. Post-Employment Health Care and Life Insurance Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the statement of net assets over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care, dental and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2010, the actuarial valuation date, approximately 47 retirees and 159 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2012 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2012, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2010.

Annual Required Contribution (ARC)	\$ 863,352
Interest on net OPEB obligation	88,759
Adjustment to ARC	<u>(123,388)</u>
Annual OPEB cost	828,723
Contributions made	<u>(182,664)</u>
Increase in net OPEB obligation	646,059
Net OPEB obligation - beginning of year	<u>2,218,974</u>
Net OPEB obligation - end of year	<u>\$ 2,865,033</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 828,723	22%	\$ 2,865,033
2011	\$ 799,639	21%	\$ 2,218,974
2010	\$ 912,060	15%	\$ 1,589,327

The Town's net OPEB obligation as of June 30, 2012 is recorded as a long-term liability in both the governmental and business-type activities.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 6,789,193
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,789,193</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 5,967,944</u>
UAAL as a percentage of covered payroll	<u>113.8%</u>

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 11% which decreases to a 5% long-term rate for all healthcare

benefits after seven years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

19. **Pension Plan**

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

A. Plan Description

The Town contributes to the Hampshire County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Hampshire County Retirement System, 99 Industrial Drive, Northampton, MA 01060-2326.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2012 and 2011 were \$ 648,732 and \$ 584,591, respectively, which were equal to its annual required contribution for each of these years.

C. Teachers

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

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

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

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

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The Town's current year covered payroll for teachers was not available.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 1,189,243 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

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

21. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2012, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly the following reconciliations are provided:

<u>Fund Basis</u>	Community Preservation Act <u>Fund</u>	School Choice <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
As previously reported	\$ -	\$ 1,109,974	\$ 2,629,148	\$ 3,739,122
Reclassify major funds in accordance with GASB 34	<u>861,192</u>	<u>(1,109,974)</u>	<u>248,782</u>	<u>-</u>
As reclassified	<u>\$ 861,192</u>	<u>\$ -</u>	<u>\$ 2,877,930</u>	<u>\$ 3,739,122</u>

22. Implementation of New GASB Standard

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Hampshire County Retirement System's actuarially accrued liability.

TOWN OF HADLEY, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(Unaudited)
(Amounts expressed in thousands)

Other Post-Employment Benefits
June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/10	-	\$6,789	\$6,789	0.0%	\$5,968	113.8%
07/01/08	-	\$7,218	\$7,218	0.0%	\$6,009	120.1%

See Independent Auditor's Report.