

TOWN OF FAIRHAVEN, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Fairhaven, 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 Fairhaven, Massachusetts, as of June 30, 2012, and for the year then ended, 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.

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

The financial statements of the Fairhaven Contributory Retirement System have not been audited, and we were not engaged to audit the System's financial statements and related required disclosures for the Fairhaven Contributory Retirement System Pension Trust Fund as part of our audit of the Town's basic financial statements. The Retirement System's financial activities are included in the Town's basic financial statements as a fiduciary fund and represent 75 percent, 82 percent, and 15 percent of the assets, net assets, and revenues, respectively of the aggregate remaining fund information.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate remaining fund information of the Town of Fairhaven, Massachusetts as of June 30, 2012, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects the governmental activities, the business-type activities, and each major fund of the Town of Fairhaven, Massachusetts, as of June 30, 2012, and the respective changes in financial position thereof, and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated March 15, 2013 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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.
March 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town, we offer readers this narrative overview and analysis of the financial activities of the Town of Fairhaven, Massachusetts for the fiscal year ended June 30, 2012. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 112,646 (i.e., net assets), a change of \$ (2,250) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 14,397, a change of \$ (2,758) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 3,250, a change of \$ (225) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 17,992, a change of \$ (2,159) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 30,414	\$ 32,339	\$ 11,611	\$ 12,985	\$ 42,025	\$ 45,324
Capital assets	<u>76,880</u>	<u>76,081</u>	<u>30,603</u>	<u>27,840</u>	<u>107,483</u>	<u>103,921</u>
Total assets	107,294	108,420	42,214	40,825	149,508	149,245
Long-term liabilities outstanding	22,860	22,189	6,626	6,860	29,486	29,049
Other liabilities	<u>6,320</u>	<u>3,919</u>	<u>1,056</u>	<u>1,381</u>	<u>7,376</u>	<u>5,300</u>
Total liabilities	29,180	26,108	7,682	8,241	36,862	34,349
Net assets:						
Invested in capital assets, net	62,613	62,114	24,803	21,536	87,416	83,650
Restricted	6,639	4,918	-	-	6,639	4,918
Unrestricted	<u>8,862</u>	<u>15,280</u>	<u>9,729</u>	<u>11,048</u>	<u>18,591</u>	<u>26,328</u>
Total net assets	<u>\$ 78,114</u>	<u>\$ 82,312</u>	<u>\$ 34,532</u>	<u>\$ 32,584</u>	<u>\$ 112,646</u>	<u>\$ 114,896</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,766	\$ 5,363	\$ 5,368	\$ 5,237	\$ 9,134	\$ 10,600
Operating grants and contributions	17,608	18,975	-	-	17,608	18,975
Capital grants and contributions	51	615	2,700	4,539	2,751	5,154
General revenues:						
Property taxes	22,256	22,213	-	-	22,256	22,213
Excises	1,749	1,471	-	-	1,749	1,471
Penalties and interest on taxes	401	322	-	-	401	322
Grants and contributions not restricted to specific programs	2,951	2,685	-	-	2,951	2,685
Investment income	7	333	7	14	14	347
Other	397	388	-	-	397	388
Total revenues	<u>49,186</u>	<u>52,365</u>	<u>8,075</u>	<u>9,790</u>	<u>57,261</u>	<u>62,155</u>
Expenses:						
General government	3,297	3,380	-	-	3,297	3,380
Public safety	8,742	8,506	-	-	8,742	8,506
Education	33,754	35,699	-	-	33,754	35,699
Public works	4,268	4,879	-	-	4,268	4,879
Human services	1,518	1,278	-	-	1,518	1,278
Culture and recreation	1,420	1,163	-	-	1,420	1,163
Interest on long-term debt	586	632	-	-	586	632
Intergovernmental	366	298	-	-	366	298
Sewer	-	-	3,663	4,015	3,663	4,015
Water	-	-	1,897	2,227	1,897	2,227
Total expenses	<u>53,951</u>	<u>55,835</u>	<u>5,560</u>	<u>6,242</u>	<u>59,511</u>	<u>62,077</u>
Change in net assets before transfers	(4,765)	(3,470)	2,515	3,548	(2,250)	78
Transfers in (out)	<u>567</u>	<u>10</u>	<u>(567)</u>	<u>(10)</u>	<u>-</u>	<u>-</u>
Change in net assets	(4,198)	(3,460)	1,948	3,538	(2,250)	78
Net assets - beginning of year (as restated)	<u>82,312</u>	<u>85,772</u>	<u>32,584</u>	<u>29,046</u>	<u>114,896</u>	<u>114,818</u>
Net assets - end of year	<u>\$ 78,114</u>	<u>\$ 82,312</u>	<u>\$ 34,532</u>	<u>\$ 32,584</u>	<u>\$ 112,646</u>	<u>\$ 114,896</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 \$ 112,646, a change of \$ (2,250) from the prior year.

The largest portion of net assets \$ 87,416 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 \$ 6,639 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 18,591 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (4,198). Key elements of this change are as follows:

Excess/deficiency of revenues over expenditures:

General Fund	\$ (2,903)
Internal service fund	<u>(214)</u>
Subtotal	(3,117)

Depreciation in excess of debt service

principal paydown	(557)
Other	<u>(524)</u>
Total	\$ <u><u>(4,198)</u></u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 1,948. Key elements of this change are as follows:

Sewer operations	\$ (962)
Sewer Digester operations	2,991
Water operations	<u>(81)</u>
Total	\$ <u><u>1,948</u></u>

The change in sewer net assets resulted primarily from depreciation expense in excess of principal paydown, and the change in sewer digester net assets resulted from intergovernmental revenues and transfers in used to purchase capital assets.

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 \$ 14,397, a change of \$ (2,758) in comparison to the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 3,250, while total fund balance was \$ 9,086. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	% of Total General Fund Expenditures
Unassigned fund balance	\$ 3,250	\$ 3,475 ⁽¹⁾	\$ (225)	6.9%
Total fund balance	9,086	10,625	(1,539)	19.4%

⁽¹⁾ Balance as reclassified.

The total fund balance of the general fund changed by \$ (1,539) during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (3,059)
Revenues in excess of budget	1,668
Expenditures less than budget	371
Expenditure timing differences	(548)
Change in stabilization	67
Other	<u>(38)</u>
Total	<u>\$ (1,539)</u>

Included in the total general fund balance is the Town's stabilization account with the following balance:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ 2,638	\$ 2,571	\$ 67

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 \$ 9,729, a change of \$ (1,319) in comparison to the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 252. Major reasons for these amendments include:

- \$ 60 for a Tree Department chipper.
- \$ 177 for various Town charges and unpaid bills of prior years.
- \$ 15 for funding labor contracts.

Of this increase, \$ 138 was funded by the tax levy, \$ 113 was funded by free cash, and \$ 1 was funded by transfers from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 107,483 (net of accumulated depreciation), a change of \$ 3,562 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included school building construction and renovations, roadway improvements, waste water treatment plant improvements and land acquisitions.

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

Change in credit rating. The Town of Fairhaven maintains an “Aa2” rating from Moody’s for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 17,992, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town'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:

Director of Finance/Treasurer
Town of Fairhaven
40 Center Street
Fairhaven, Massachusetts 02719

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 10,950,263	\$ 7,510,842	\$ 18,461,105
Investments	8,303,790	-	8,303,790
Deposits held by others	1,432,000	-	1,432,000
Receivables, net of allowance for uncollectibles:			
Property taxes	251,286	-	251,286
Excises	188,193	-	188,193
User fees	-	592,681	592,681
Betterments	-	310,582	310,582
Departmental and other	1,115,282	-	1,115,282
Intergovernmental	1,505,301	157,806	1,663,107
Other assets	17,034	-	17,034
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,040,619	-	1,040,619
Betterments	-	3,038,765	3,038,765
Intergovernmental	5,545,092	-	5,545,092
Other assets	64,769	-	64,769
Capital assets:			
Land and construction in progress	24,894,929	12,216,601	37,111,530
Other capital assets, net of accumulated depreciation	51,984,947	18,386,786	70,371,733
TOTAL ASSETS	107,293,505	42,214,063	149,507,568
LIABILITIES			
Current:			
Warrants payable	2,480,288	409,912	2,890,200
Retainage payable	21,450	382,234	403,684
Accrued liabilities	1,424,182	55,094	1,479,276
Tax refunds payable	253,725	-	253,725
Notes payable	2,000,000	155,946	2,155,946
Other current liabilities	140,269	52,469	192,738
Current portion of long-term liabilities:			
Bonds payable	1,781,297	435,268	2,216,565
Landfill closure	25,000	-	25,000
Accrued employee benefits	52,904	2,460	55,364
Special termination benefits	47,074	-	47,074
Noncurrent:			
Bonds payable, net of current portion	10,566,321	5,209,218	15,775,539
Landfill closure, net of current portion	425,000	-	425,000
Accrued employee benefits, net of current portion	1,005,178	46,751	1,051,929
Special termination benefits, net of current portion	372,955	-	372,955
Net OPEB obligation	8,583,876	932,870	9,516,746
TOTAL LIABILITIES	29,179,519	7,682,222	36,861,741
NET ASSETS			
Invested in capital assets, net of related debt	62,613,220	24,802,955	87,416,175
Restricted for:			
Grants and other statutory restrictions	4,458,997	-	4,458,997
Permanent funds:			
Nonexpendable	1,940,164	-	1,940,164
Expendable	239,293	-	239,293
Unrestricted	8,862,312	9,728,886	18,591,198
TOTAL NET ASSETS	\$ 78,113,986	\$ 34,531,841	\$ 112,645,827

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,297,277	\$ 555,969	\$ 416,766	\$ -	\$ (2,324,542)	\$ -	\$ (2,324,542)
Public safety	8,742,043	966,946	247,135	-	(7,527,962)	-	(7,527,962)
Education	33,753,596	1,898,563	14,296,383	-	(17,558,650)	-	(17,558,650)
Public works	4,268,447	160,043	1,661,902	51,007	(2,395,495)	-	(2,395,495)
Health and human services	1,517,889	1,955	975,013	-	(540,921)	-	(540,921)
Culture and recreation	1,420,085	183,125	10,419	-	(1,226,541)	-	(1,226,541)
Interest	586,070	-	-	-	(586,070)	-	(586,070)
Intergovernmental	365,999	-	-	-	(365,999)	-	(365,999)
Total Governmental Activities	53,951,406	3,766,601	17,607,618	51,007	(32,526,180)	-	(32,526,180)
Business-Type Activities:							
Sewer	3,662,711	3,281,859	-	8,556	-	(372,296)	(372,296)
Sewer Digester	-	-	-	2,691,072	-	2,691,072	2,691,072
Water	1,896,704	2,086,184	-	-	-	189,480	189,480
Total Business-Type Activities	5,559,415	5,368,043	-	2,699,628	-	2,508,256	2,508,256
Total	\$ 59,510,821	\$ 9,134,644	\$ 17,607,618	\$ 2,750,635	(32,526,180)	2,508,256	(30,017,924)
General Revenues and Transfers:							
Property taxes					22,256,030	-	22,256,030
Excises					1,748,656	-	1,748,656
Penalties, interest and other taxes					400,922	-	400,922
Grants and contributions not restricted to specific programs					2,951,113	-	2,951,113
Investment income					6,975	7,379	14,354
Miscellaneous					396,802	-	396,802
Transfers, net					567,327	(567,327)	-
Total general revenues and transfers					28,327,825	(559,948)	27,767,877
Change in Net Assets					(4,198,355)	1,948,308	(2,250,047)
Net Assets:							
Beginning of year, as restated					82,312,341	32,583,533	114,895,874
End of year					\$ 78,113,986	\$ 34,531,841	\$ 112,645,827

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Wood Elementary School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 5,238,357	\$ 1,045,171	\$ 4,131,290	\$ 10,414,818
Investments	5,862,214	-	2,441,576	8,303,790
Receivables:				
Property taxes	1,437,479	-	10,895	1,448,374
Excises	303,362	-	-	303,362
Departmental and other	10,130	-	921,966	932,096
Intergovernmental	30	-	1,993,559	1,993,589
Other assets	841	-	-	841
TOTAL ASSETS	\$ 12,852,413	\$ 1,045,171	\$ 9,499,286	\$ 23,396,870
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 1,031,080	\$ 552,182	\$ 201,898	\$ 1,785,160
Retainage payable	-	21,450	-	21,450
Accrued liabilities	912,929	-	25,745	938,674
Deferred revenues	1,659,009	-	2,432,511	4,091,520
Tax refunds payable	23,131	-	-	23,131
Notes payable	-	2,000,000	-	2,000,000
Other liabilities	140,269	-	-	140,269
TOTAL LIABILITIES	3,766,418	2,573,632	2,660,154	9,000,204
Fund Balances:				
Nonspendable	-	-	1,940,164	1,940,164
Restricted	-	-	4,566,987	4,566,987
Committed	3,200,333	-	389,788	3,590,121
Assigned	2,635,825	-	-	2,635,825
Unassigned	3,249,837	(1,528,461)	(57,807)	1,663,569
TOTAL FUND BALANCES	9,085,995	(1,528,461)	6,839,132	14,396,666
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,852,413	\$ 1,045,171	\$ 9,499,286	\$ 23,396,870

See notes to financial statements.

TOWN OF FAIRHAVEN, 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	\$ 14,396,666
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	76,879,876
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	3,589,288
• Noncurrent assets, including MSBA reimbursements for contracted assistance, are not receivable in the current period and, therefore, are not reported in governmental funds.	5,056,803
• Internal service funds are used by management to account for health insurance activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	1,044,654
• Deferred debt expense for refunding is net of amortization on the Statement of Net Assets, whereas all debt expense is reported when paid in the governmental funds.	80,962
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(74,658)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable	(12,347,618)
Landfill closure	(450,000)
Accrued employee benefits	(1,058,082)
Special termination benefits	(420,029)
Net OPEB obligation	<u>(8,583,876)</u>
Net assets of governmental activities	\$ <u>78,113,986</u>

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Wood Elementary School Construction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 22,922,700	\$ -	\$ 310,935	\$ 23,233,635
Excises	1,560,463	-	-	1,560,463
Penalties, interest and other taxes	400,110	-	812	400,922
Charges for services	1,838,739	-	1,577,789	3,416,528
Intergovernmental	16,408,807	-	4,325,386	20,734,193
Licenses and permits	403,654	-	-	403,654
Fines and forfeitures	4,699	-	-	4,699
Investment income	30,645	-	(28,556)	2,089
Contributions	-	-	597,960	597,960
Miscellaneous	396,802	-	-	396,802
Total Revenues	43,966,619	-	6,784,326	50,750,945
Expenditures:				
Current:				
General government	1,899,147	-	1,054,642	2,953,789
Public safety	5,228,188	-	311,295	5,539,483
Education	24,853,128	-	3,132,639	27,985,767
Public works	2,839,340	-	37,310	2,876,650
Health and human services	1,082,077	-	264,877	1,346,954
Culture and recreation	939,852	-	272,259	1,212,111
Employee benefits	7,371,043	-	-	7,371,043
Debt service	2,290,505	-	-	2,290,505
Intergovernmental	365,999	-	-	365,999
Capital outlay	-	1,528,461	605,663	2,134,124
Total Expenditures	46,869,279	1,528,461	5,678,685	54,076,425
Excess (deficiency) of revenues over expenditures	(2,902,660)	(1,528,461)	1,105,641	(3,325,480)
Other Financing Sources (Uses):				
Transfers in	1,486,358	-	122,775	1,609,133
Transfers out	(122,589)	-	(919,217)	(1,041,806)
Total Other Financing Sources (Uses)	1,363,769	-	(796,442)	567,327
Change in fund balance	(1,538,891)	(1,528,461)	309,199	(2,758,153)
Fund Equity, at Beginning of Year	10,624,886	-	6,529,933	17,154,819
Fund Equity, at End of Year	\$ 9,085,995	\$ (1,528,461)	\$ 6,839,132	\$ 14,396,666

See notes to financial statements.

TOWN OF FAIRHAVEN, 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	\$ (2,758,153)
<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: 	
Capital outlay purchases	3,072,124
Depreciation	(2,273,263)
<ul style="list-style-type: none"> 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. 	(331,080)
<ul style="list-style-type: none"> Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. 	(1,011,361)
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Repayments of debt	1,716,297
Deferred debt amortization	(16,193)
<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. 	4,331
<ul style="list-style-type: none"> 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: 	
Landfill closure	25,000
Accrued employee benefits	(174,033)
Special termination benefits	43,587
Net OPEB obligation	(2,281,741)
<ul style="list-style-type: none"> Internal service funds are used by management to account for health insurance activities. The net activity of internal service funds is reported with Governmental Activities. 	(213,870)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ (4,198,355)

See notes to financial statements.

TOWN OF FAIRHAVEN, 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>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property taxes	\$ 22,646,382	\$ 22,784,288	\$ 22,784,288	\$ -
Excise	1,392,000	1,392,000	1,560,463	168,463
Penalties, interest and other taxes	342,404	342,404	400,110	57,706
Charges for services	1,599,100	1,599,100	1,925,716	326,616
Intergovernmental	10,834,809	10,834,809	11,877,899	1,043,090
Licenses and permits	283,000	283,000	403,654	120,654
Fines and forfeits	15,000	15,000	4,699	(10,301)
Investment income	72,000	72,000	39,597	(32,403)
Miscellaneous	451,906	451,906	396,802	(55,104)
Transfers in	1,436,319	1,437,536	1,486,358	48,822
Use of free cash	2,789,335	2,902,105	2,902,105	-
Other sources	<u>156,800</u>	<u>156,800</u>	<u>156,800</u>	<u>-</u>
Total Revenues and Other Sources	42,019,055	42,270,948	43,938,491	1,667,543
Expenditures and Other Uses:				
General government	2,007,728	2,059,322	1,976,217	83,105
Public safety	5,272,423	5,275,516	5,230,989	44,527
Education	19,849,066	19,849,066	19,841,391	7,675
Public works	2,721,301	2,910,085	2,793,140	116,945
Health and human services	1,105,727	1,125,202	1,082,922	42,280
Culture and recreation	866,794	867,265	862,256	5,009
Employee benefits	7,460,068	7,460,068	7,371,043	89,025
Debt service	2,299,730	2,288,206	2,283,432	4,774
Intergovernmental	321,660	321,660	365,999	(44,339)
Transfers out	<u>114,558</u>	<u>114,558</u>	<u>92,218</u>	<u>22,340</u>
Total Expenditures and Other Uses	<u>42,019,055</u>	<u>42,270,948</u>	<u>41,899,607</u>	<u>371,341</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,038,884</u>	\$ <u>2,038,884</u>

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
<u>ASSETS</u>					
Current:					
Cash and short-term investments	\$ 6,218,766	\$ 411,165	\$ 880,911	\$ 7,510,842	\$ 535,445
Deposits held by others	-	-	-	-	1,432,000
Receivables, net of allowance for uncollectibles:					
User fees	360,148	-	232,533	592,681	-
Betterments	306,659	-	3,923	310,582	-
Intergovernmental	-	157,806	-	157,806	-
Other	-	-	-	-	183,186
Total current assets	6,885,573	568,971	1,117,367	8,571,911	2,150,631
Noncurrent:					
Receivables, net of allowance for uncollectibles:					
Betterments	3,031,468	-	7,297	3,038,765	-
Capital assets:					
Land and construction in progress	2,237,073	9,089,845	889,683	12,216,601	-
Other capital assets, net of accumulated depreciation	15,761,595	-	2,625,191	18,386,786	-
Total noncurrent assets	21,030,136	9,089,845	3,522,171	33,642,152	-
TOTAL ASSETS	27,915,709	9,658,816	4,639,538	42,214,063	2,150,631
<u>LIABILITIES</u>					
Current:					
Warrants payable	69,447	302,636	37,829	409,912	695,127
Retainage payable	-	382,234	-	382,234	-
Accrued liabilities	41,275	-	13,819	55,094	410,850
Notes payable	-	155,946	-	155,946	-
Other current liabilities	51,869	-	600	52,469	-
Current portion of long-term liabilities:					
Bonds payable	435,268	-	-	435,268	-
Accrued employee benefits	1,727	-	733	2,460	-
Total current liabilities	599,586	840,816	52,981	1,493,383	1,105,977
Noncurrent:					
Bonds payable, net of current portion	5,209,218	-	-	5,209,218	-
Accrued employee benefits, net of current portion	32,821	-	13,930	46,751	-
Net OPEB obligation	635,363	-	297,507	932,870	-
Total noncurrent liabilities	5,877,402	-	311,437	6,188,839	-
TOTAL LIABILITIES	6,476,988	840,816	364,418	7,682,222	1,105,977
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	12,354,182	8,933,899	3,514,874	24,802,955	-
Unrestricted	9,084,539	(115,899)	760,246	9,728,886	1,044,654
TOTAL NET ASSETS	\$ 21,438,721	\$ 8,818,000	\$ 4,275,120	\$ 34,531,841	\$ 1,044,654

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 3,261,951	\$ -	\$ 2,072,521	\$ 5,334,472	\$ -
Employee and employer contributions	-	-	-	-	9,062,763
Other	19,908	-	13,663	33,571	-
Total Operating Revenues	3,281,859	-	2,086,184	5,368,043	9,062,763
Operating Expenses:					
Personnel services	957,978	-	490,179	1,448,157	-
Non-personnel services	987,304	-	325,065	1,312,369	-
Depreciation	1,473,238	-	115,241	1,588,479	-
Intergovernmental	-	-	966,219	966,219	-
Employee benefits	-	-	-	-	9,281,519
Total Operating Expenses	3,418,520	-	1,896,704	5,315,224	9,281,519
Operating Income (Loss)	(136,661)	-	189,480	52,819	(218,756)
Nonoperating Revenues (Expenses):					
Intergovernmental revenue	8,556	2,691,072	-	2,699,628	-
Investment income	7,162	-	217	7,379	4,886
Interest expense	(244,191)	-	-	(244,191)	-
Total Nonoperating Revenues (Expenses), Net	(228,473)	2,691,072	217	2,462,816	4,886
Income (Loss) Before Transfers	(365,134)	2,691,072	189,697	2,515,635	(213,870)
Transfers:					
Transfers in	5,894	300,000	1,864	307,758	-
Transfers out	(602,962)	-	(272,123)	(875,085)	-
Change in Net Assets	(962,202)	2,991,072	(80,562)	1,948,308	(213,870)
Net Assets at Beginning of Year, as reclassified	22,400,923	5,826,928	4,355,682	32,583,533	1,258,524
Net Assets at End of Year	\$ 21,438,721	\$ 8,818,000	\$ 4,275,120	\$ 34,531,841	\$ 1,044,654

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Sewer Digester Fund	Water Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>					
Receipts from customers and users	\$ 3,858,385	\$ -	\$ 2,140,002	\$ 5,998,387	\$ 9,133,879
Payments to vendors and employees	(1,809,870)	(497,984)	(1,707,785)	(4,015,639)	(8,857,363)
Net Cash Provided By (Used For) Operating Activities	2,048,515	(497,984)	432,217	1,982,748	276,516
<u>Cash Flows From Noncapital Financing Activities:</u>					
Transfers in	5,894	300,000	1,864	307,758	-
Transfers out	(602,962)	-	(272,123)	(875,085)	-
Intergovernmental revenue	8,556	3,716,120	-	3,724,676	-
Net Cash Provided By (Used For) Noncapital Financing Activities	(588,512)	4,016,120	(270,259)	3,157,349	-
<u>Cash Flows From Capital and Related Financing Activities:</u>					
Acquisition and construction of capital assets	(758,960)	(3,262,917)	(329,682)	(4,351,559)	-
Proceeds from issuance of bonds and notes	-	155,946	-	155,946	-
Principal payments on bonds and notes	(443,054)	-	-	(443,054)	-
Interest expense	(237,454)	-	-	(237,454)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,439,468)	(3,106,971)	(329,682)	(4,876,121)	-
<u>Cash Flows From Investing Activities:</u>					
Investment income	7,162	-	217	7,379	4,886
Net Cash Provided By Investing Activities	7,162	-	217	7,379	4,886
Net Change in Cash and Short-Term Investments	27,697	411,165	(167,507)	271,355	281,402
Cash and Short-Term Investments, Beginning of Year	6,191,069	-	1,048,418	7,239,487	254,043
Cash and Short-Term Investments, End of Year	<u>\$ 6,218,766</u>	<u>\$ 411,165</u>	<u>\$ 880,911</u>	<u>\$ 7,510,842</u>	<u>\$ 535,445</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>					
Operating income (loss)	\$ (136,661)	\$ -	\$ 189,480	\$ 52,819	\$ (218,756)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	1,473,238	-	115,241	1,588,479	-
Changes in assets and liabilities:					
User fees	109,024	-	52,904	161,928	-
Betterments	454,096	-	3,925	458,021	-
Other assets	-	-	-	-	(162,684)
Warrants payable	(6,650)	(645,273)	23,499	(628,424)	695,127
Retainage payable	-	147,289	-	147,289	-
Accrued liabilities	(10,622)	-	(6,231)	(16,853)	(37,171)
Other liabilities	13,406	-	(3,011)	10,395	-
Accrued employee benefits	(193)	-	8,968	8,775	-
Net OPEB obligation	152,877	-	47,442	200,319	-
Net Cash Provided By Operating Activities	<u>\$ 2,048,515</u>	<u>\$ (497,984)</u>	<u>\$ 432,217</u>	<u>\$ 1,982,748</u>	<u>\$ 276,516</u>

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	(unaudited) Pension Trust Fund (As of <u>December 31, 2011</u>)	Post-Employment Insurance Liability <u>Trust Fund</u>	Private Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>				
Cash and short-term investments	\$ 1,405,571	\$ 1,157	\$ 294,974	\$ 306,514
Investments	35,725,411	49,810	163,987	-
Accounts receivable	<u>125,961</u>	<u>-</u>	<u>-</u>	<u>39,177</u>
Total Assets	37,256,943	50,967	458,961	345,691
<u>LIABILITIES AND NET ASSETS</u>				
Warrants payable	-	-	1,200	27,240
Accrued liabilities	-	-	-	15,979
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>302,472</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,200</u>	<u>345,691</u>
<u>NET ASSETS</u>				
Total net assets held in trust	\$ <u><u>37,256,943</u></u>	\$ <u><u>50,967</u></u>	\$ <u><u>457,761</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

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

	(unaudited) Pension Trust Fund (For the Year Ended December 31, 2011)	Post-Employment Insurance Liability Trust Fund	Private Purpose Trust Funds
Additions:			
Contributions:			
Employers	\$ 2,262,883	\$ -	\$ -
Plan members	1,072,339	-	-
Other	<u>185,868</u>	<u>50,000</u>	<u>15,250</u>
Total contributions	3,521,090	50,000	15,250
Investment Income (Loss):			
Interest income	-	967	2,221
Increase (decrease) in fair value of investments	83,366	-	(30,997)
Less: management fees	<u>(180,580)</u>	<u>-</u>	<u>-</u>
Net investment income (loss)	<u>(97,214)</u>	<u>967</u>	<u>(28,776)</u>
Total additions	3,423,876	50,967	(13,526)
Deductions:			
Benefit payments to plan members, beneficiaries, and other systems	3,154,104	-	-
Refunds to plan members	109,967	-	-
Administrative expenses	94,633	-	-
Other	<u>64,173</u>	<u>-</u>	<u>41,830</u>
Total deductions	<u>3,422,877</u>	<u>-</u>	<u>41,830</u>
Net increase (decrease)	999	50,967	(55,356)
Net assets:			
Beginning of year	<u>37,255,944</u>	<u>-</u>	<u>513,117</u>
End of year	<u>\$ 37,256,943</u>	<u>\$ 50,967</u>	<u>\$ 457,761</u>

See notes to financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Fairhaven, Massachusetts (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 Town 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 the Fiduciary Funds: The Fairhaven Contributory Retirement System (the System) which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 40 Center Street, Fairhaven, MA 02719. The System information presented in this report is unaudited.

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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Wood Elementary School Construction fund* – To account for capital activities associated with construction at the Wood Elementary School.

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

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

The government reports the following major proprietary funds:

- Sewer fund
- Sewer digester fund
- Water fund

The *self-insured employee health program* is reported as an internal service fund in the accompanying financial statements.

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

The *post-employment insurance liability trust fund* is used to account for funds to offset the anticipated cost of premium payments for or direct payments to be made to retired employees of the Town, and to any eligible surviving spouse of or dependents of deceased employees of the Town.

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

The *agency fund* is custodial in nature and is used to account for funds held for others.

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

Investments for the trust funds consist of marketable securities, bonds, mutual funds, and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent

(excluding new growth), unless an override is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$ 10,428.

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 \$ 25,000 for machinery and equipment, \$ 100,000 for land, buildings and improvements, and infrastructure, and an estimated useful life in excess of one year. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Improvements	20 - 40
Infrastructure	30 - 60
Machinery and equipment	5 - 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, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obliga-

tions 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., the 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 voted to be used in the subsequent fiscal year. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year’s budget is voted by Town Meeting.
- 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 and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 43,966,619	\$ 46,869,279
Other financing sources/uses (GAAP Basis)	<u>1,486,358</u>	<u>122,589</u>
Subtotal (GAAP Basis)	45,452,977	46,991,868
Adjust tax revenue to accrual basis	(138,412)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,644,735)
Add end-of-year appropriation carryforwards from expenditures	-	1,097,047
To record use of free cash	2,902,105	-
To record use of overlay surplus	156,800	-
To reverse the effect of non-budgeted State contributions	(4,523,834)	(4,523,834)
To reverse non-budgeted activity	<u>88,855</u>	<u>(20,739)</u>
Budgetary Basis	<u>\$ 43,938,491</u>	<u>\$ 41,899,607</u>

D. Deficit Fund Equity

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

Wood Elementary School Construction	\$ (1,528,461)
Non-Major Governmental Funds:	
Chap 90 - Howland Rd	(1,294)
Chap 90 - Fort St	(448)
New Bedford ESHS	(1,443)
911 Police Grant	(2,869)
North Fairhaven Harbor Stormwater	(41,818)
DEA Police	(5,107)
CDBG Spring St	(422)
Police EMD Training Grant	(4,403)
Tripp School Lease	<u>(3)</u>
Total Non-Major Governmental Funds	<u>(57,807)</u>
Total	\$ <u><u>(1,586,268)</u></u>

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

3. Cash and Short-term Investments

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

As of June 30, 2012, \$ 12,373,340 of the Town's bank balance of \$ 20,047,514 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term invest-

ments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the 's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year-end</u>			
			<u>AAA</u>	<u>AA+</u>	<u>BBB+</u>	<u>Not Rated</u>
Certificates of deposits	\$ 3,502	N/A	\$ -	\$ -	\$ -	\$ 3,502
Corporate bonds	246	N/A	-	207	39	-
Corporate equities	198	N/A	-	-	-	198
Mutual funds	2,148	N/A	-	-	-	2,148
Federal agency securities	<u>2,424</u>	N/A	<u>2,424</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 8,518</u>		<u>\$ 2,424</u>	<u>\$ 207</u>	<u>\$ 39</u>	<u>\$ 5,848</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. The Town does not have policies for custodial credit risk.

All of the Town's investments 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 risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

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

Bristol County Savings Bank CD	\$ 2,500
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D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal

investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
Certificates of deposit	\$ 3,502	\$ -	\$ 3,502	\$ -	\$ -
Corporate bonds	246	207	39	-	-
Federal agency securities	<u>2,424</u>	<u>-</u>	<u>2,424</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,172</u>	<u>\$ 207</u>	<u>\$ 5,965</u>	<u>\$ -</u>	<u>\$ -</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 does not have policies for foreign currency risk; however, the Town is not exposed to foreign currency risk.

5. Taxes Receivable

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

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

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

Real Estate		
2012		\$ 366
Personal Property		
2012	7	
2011	3	
2010	2	
2009	1	
Prior	<u>13</u>	
		26
Tax Liens		1,041
Deferred Taxes		4
CPA		<u>11</u>
Total		<u>\$ 1,448</u>

6. **Allowance for Doubtful Accounts**

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 156	\$ -
Excises	\$ 115	\$ -
Utilities	\$ -	\$ 44

7. **Intergovernmental Receivables**

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

8. **Interfund Transfers**

The Town reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
Governmental:			
General fund	\$ 1,486,358	\$ 122,589	\$ 1,363,769
Nonmajor Funds:			
Special revenue funds	<u>122,775</u>	<u>919,217</u>	<u>(796,442)</u>
Subtotal - Governmental	<u>1,609,133</u>	<u>1,041,806</u>	<u>567,327</u>
Business-Type:			
Sewer fund	5,894	602,962	(597,068)
Sewer Digester fund	300,000	-	300,000
Water fund	<u>1,864</u>	<u>272,123</u>	<u>(270,259)</u>
Subtotal - Business-Type	<u>307,758</u>	<u>875,085</u>	<u>(567,327)</u>
Total	<u>\$ 1,916,891</u>	<u>\$ 1,916,891</u>	<u>\$ -</u>

9. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 44,731	\$ -	\$ -	\$ 44,731
Improvements	9,147	591	-	9,738
Machinery and equipment	3,356	-	-	3,356
Infrastructure	<u>23,934</u>	<u>931</u>	<u>-</u>	<u>24,865</u>
Total capital assets, being depreciated	81,168	1,522	-	82,690
Less accumulated depreciation for:				
Buildings	(13,903)	(1,070)	-	(14,973)
Improvements	(3,093)	(333)	-	(3,426)
Machinery and equipment	(2,027)	(249)	-	(2,276)
Infrastructure	<u>(9,409)</u>	<u>(621)</u>	<u>-</u>	<u>(10,030)</u>
Total accumulated depreciation	<u>(28,432)</u>	<u>(2,273)</u>	<u>-</u>	<u>(30,705)</u>
Total capital assets, being depreciated, net	52,736	(751)	-	51,985
Capital assets, not being depreciated:				
Land	21,997	102	-	22,099
Construction in progress	<u>1,348</u>	<u>2,278</u>	<u>(830)</u>	<u>2,796</u>
Total capital assets, not being depreciated	<u>23,345</u>	<u>2,380</u>	<u>(830)</u>	<u>24,895</u>
Governmental activities capital assets, net	<u>\$ 76,081</u>	<u>\$ 1,629</u>	<u>\$ (830)</u>	<u>\$ 76,880</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and system	\$ 24,991	\$ 431	\$ -	\$ 25,422
Improvements other than buildings	18,186	-	-	18,186
Machinery and equipment	<u>3,199</u>	<u>198</u>	<u>-</u>	<u>3,397</u>
Total capital assets, being depreciated	46,376	629	-	47,005
Less accumulated depreciation for:				
Buildings and system	(18,465)	(1,000)	-	(19,465)
Improvements other than buildings	(6,247)	(435)	-	(6,682)
Machinery and equipment	<u>(2,318)</u>	<u>(153)</u>	<u>-</u>	<u>(2,471)</u>
Total accumulated depreciation	<u>(27,030)</u>	<u>(1,588)</u>	<u>-</u>	<u>(28,618)</u>
Total capital assets, being depreciated, net	19,346	(959)	-	18,387
Capital assets, not being depreciated:				
Land	989	-	-	989
Construction in progress	<u>7,505</u>	<u>3,722</u>	<u>-</u>	<u>11,227</u>
Total capital assets, not being depreciated	<u>8,494</u>	<u>3,722</u>	<u>-</u>	<u>12,216</u>
Business-type activities capital assets, net	<u>\$ 27,840</u>	<u>\$ 2,763</u>	<u>\$ -</u>	<u>\$ 30,603</u>

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

Governmental Activities:	
General government	\$ 90
Public safety	145
Education	1,143
Public works	782
Culture and recreation	<u>113</u>
Total depreciation expense - governmental activities	<u>\$ 2,273</u>
Business-Type Activities:	
Sewer fund	\$ 1,473
Water fund	<u>115</u>
Total depreciation expense - business-type activities	<u>\$ 1,588</u>

10. Warrants Payable

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

11. Deferred Revenue

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

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

12. Tax Refunds Payable

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

13. Anticipation Notes Payable

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/12</u>
MWPAT loan	0.15%	01/15/12	12/31/12	\$ 155,946
Bond anticipation	0.54%	04/18/12	04/18/13	<u>2,000,000</u>
Total				<u>\$ 2,155,946</u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
MWPAT loan	\$ -	\$ 155,946	\$ -	\$ 155,946
Bond anticipation	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
Total	<u>\$ -</u>	<u>\$ 2,155,946</u>	<u>\$ -</u>	<u>\$ 2,155,946</u>

14. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds

have been issued for both governmental and business-type activities.
General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/12</u>
High school - refunding	06/15/17	2.1 - 5.0%	\$ 7,520,000
Title V MWPAT	08/01/18	0.0%	76,084
Elementary school MSBA	11/01/18	2.0%	1,041,000
Title V MWPAT	02/01/21	0.0%	60,534
Elementary school	12/15/24	3.0 - 4.4%	650,000
Elementary school	03/15/27	3.8 - 5.0%	<u>3,000,000</u>
Total Governmental Activities:			<u>\$ 12,347,618</u>

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/12</u>
Sewer - Boulder Park MWPAT	08/01/18	4.0 - 5.2%	\$ 126,400
Sewer - Nancy St	12/15/24	3.0 - 4.4%	300,000
Sewer - Sconticut Neck	12/15/24	3.0 - 4.4%	4,030,000
Sewer - UV Disinfection	12/15/24	3.0 - 4.4%	1,000,000
Sewer - USDA Rural Development	02/02/26	4.5%	<u>188,086</u>
Total Business-Type Activities:			<u>\$ 5,644,486</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,781,297	\$ 516,114	\$ 2,297,411
2014	1,851,297	438,445	2,289,742
2015	1,916,293	365,286	2,281,579
2016	1,986,293	291,465	2,277,758
2017	2,066,293	201,081	2,267,374
2018 - 2022	1,596,145	388,384	1,984,529
2023 - 2027	<u>1,150,000</u>	<u>129,838</u>	<u>1,279,838</u>
Total	<u>\$ 12,347,618</u>	<u>\$ 2,330,613</u>	<u>\$ 14,678,231</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 435,268	\$ 231,120	\$ 666,388
2014	443,561	206,208	649,769
2015	445,677	189,825	635,502
2016	446,816	171,905	618,721
2017	447,879	153,812	601,691
2018 - 2022	2,155,973	500,699	2,656,672
2023 - 2027	<u>1,269,312</u>	<u>88,004</u>	<u>1,357,316</u>
Total	\$ <u>5,644,486</u>	\$ <u>1,541,573</u>	\$ <u>7,186,059</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 14,064	\$ -	\$ (1,716)	\$ 12,348	\$ (1,781)	\$ 10,567
Landfill closure	475	-	(25)	450	(25)	425
Accrued employee benefits	884	174	-	1,058	(53)	1,005
Special termination benefits	464	-	(44)	420	(47)	373
Net OPEB obligation	<u>6,302</u>	<u>2,282</u>	<u>-</u>	<u>8,584</u>	<u>-</u>	<u>8,584</u>
Totals	\$ <u>22,189</u>	\$ <u>2,456</u>	\$ <u>(1,785)</u>	\$ <u>22,860</u>	\$ <u>(1,906)</u>	\$ <u>20,954</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,087	\$ -	\$ (443)	\$ 5,644	\$ (435)	\$ 5,209
Accrued employee benefits	40	9	-	49	(2)	47
Net OPEB obligation	<u>733</u>	<u>200</u>	<u>-</u>	<u>933</u>	<u>-</u>	<u>933</u>
Totals	\$ <u>6,860</u>	\$ <u>209</u>	\$ <u>(443)</u>	\$ <u>6,626</u>	\$ <u>(437)</u>	\$ <u>6,189</u>

15. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at its landfill site for thirty years after closure.

The \$ 450,000 reported as landfill postclosure care liability at June 30, 2012, represents future monitoring costs of the landfill that was capped in 1999. These costs will be captured annually as part of the operating budget. Actual

costs may be higher due to inflation, changes in technology, or changes in regulations.

16. 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.

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

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

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

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

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

vote (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose as established by management. 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. The Town follows an informal policy that permits management to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.

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

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

	General Fund	Wood Elementary School Construction	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Nonexpendable permanent funds	\$ -	\$ -	\$ 1,940,164	\$ 1,940,164
Total Nonexpendable	-	-	1,940,164	1,940,164
Restricted				
Bonded projects	-	-	258,485	258,485
Special revenue funds	-	-	4,069,209	4,069,209
Expendable permanent funds	-	-	239,293	239,293
Total Restricted	-	-	4,566,987	4,566,987
Committed				
Stabilization funds	2,637,780	-	-	2,637,780
Carryover articles	562,553	-	-	562,553
Community preservation funds	-	-	389,788	389,788
Total Committed	3,200,333	-	389,788	3,590,121
Assigned				
Encumbrances	534,494	-	-	534,494
For next year's expenditures	2,101,331	-	-	2,101,331
Total Assigned	2,635,825	-	-	2,635,825
Unassigned				
Unassigned	3,249,837	(1,528,461)	(57,807)	1,663,569
Total Unassigned	3,249,837	(1,528,461)	(57,807)	1,663,569
Total Fund Balance	\$ 9,085,995	\$ (1,528,461)	\$ 6,839,132	\$ 14,396,666

18. **Subsequent Events**

Debt

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

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 5,000,000	1.0%	11/02/12	11/01/13

19. **Commitments and Contingencies**

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

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

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

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of 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, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. As of July 1, 2010, the actuarial

valuation date, approximately 240 retirees and 395 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 40% 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)	\$ 3,710,847
Interest on net OPEB obligation	177,996
Adjustment to ARC	<u>575,615</u>
Annual OPEB cost	4,464,458
Contributions made	<u>(1,982,398)</u>
Increase in net OPEB obligation	2,482,060
Net OPEB obligation - beginning of year	<u>7,034,686</u>
Net OPEB obligation - end of year	<u><u>\$ 9,516,746</u></u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 4,464,458	44%	\$ 9,516,746
2011	\$ 4,216,364	35%	\$ 7,034,686
2010	\$ 3,449,753	40%	\$ 4,300,946
2009	\$ 3,452,485	35%	\$ 2,232,897

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)	\$ 48,462,264
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 48,462,264</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 16,022,898</u>
UAAL as a percentage of covered payroll	<u>302.5%</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 by the actuary, as the Town had not advance funded its obligation prior to the date of the actuarial valuation. However, during fiscal year 2012, the Town contributed \$ 50,000 to the post-employment insurance liability trust fund. 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 eight 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%.

21. **Contributory Retirement System**

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

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Fairhaven Contributory Retirement System (FCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	193
Terminated plan members entitled to but not yet receiving benefits	63
Active plan members	<u>265</u>
Total	<u>521</u>
Number of participating employers	2

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

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

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

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2007	\$ 1,682,225	100%
2008	\$ 1,757,044	100%
2009	\$ 1,817,609	100%
2010	\$ 1,898,348	100%
2011	\$ 1,977,180	100%
2012	\$ 2,198,550	100%

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

The information presented below is from the Fairhaven Contributory Retirement System's most recent valuation.

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]
01/01/12	\$ 37,257	\$ 58,769	\$ 21,512	63.4%	\$ 10,430	206.3%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 21.5 million was calculated. The actuarial assumptions included (a) 8 % investment rate of return and (b) a projected salary increase of 4.75 – 5.25 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8 %) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2011, the unfunded actuarially accrued liability is being amortized over 21 years using a 4 % annual increasing basis.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

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

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

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

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 4,523,834 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. Self-Insurance

The Town self-insures against claims for employee health coverage. Annual estimated requirements for claims are provided in the Town's annual operating budget.

Health Insurance

The Town contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the Town is liable for claims up to \$ 75,000 per individual. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the year ended June 30, 2012 are as follows:

	<u>Health Coverage</u>
Claims liability, beginning of year	\$ 448,021
Claims incurred/recognized in fiscal year 2012	9,281,519
Claims paid in fiscal year 2012	<u>(9,318,690)</u>
Claims liability, end of year	<u>\$ 410,850</u>

23. Risk Management

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

24. Beginning Net Assets Reclassification

The Town's business-type funds for fiscal year 2012, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/11 (as previously reported)	Reclassification ⁽¹⁾	Fund Equity 6/30/11 (as restated)
Sewer fund	\$ 22,281,665	\$ 119,258	\$ 22,400,923
Water fund	<u>4,474,940</u>	<u>(119,258)</u>	<u>4,355,682</u>
Total	<u>\$ 26,756,605</u>	<u>\$ -</u>	<u>\$ 26,756,605</u>

⁽¹⁾ Capital assets moved from Water fund to Sewer fund.

25. Beginning Net Assets Restatement

The beginning (July 1, 2011) net assets of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	\$ 81,669,960
MSBA receivable	<u>642,381</u>
As restated	<u>\$ 82,312,341</u>

26. Implementation of New GASB Standards

- The GASB has issued Statement 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*,

which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by eliminating the deferred charges.

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

TOWN OF FAIRHAVEN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012
(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/08	\$ 40,568	\$ 48,192	\$ 7,624	84.2%	\$ 10,125	75.3%
01/01/10	\$ 33,332	\$ 54,098	\$ 20,766	61.6%	\$ 10,027	207.1%
01/01/12	\$ 37,257	\$ 58,769	\$ 21,512	63.4%	\$ 10,430	206.3%

Other Post-Employment Benefits

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]
07/01/08	\$ -	\$ 38,683	\$ 38,683	0.0%	\$ 16,098	240.3%
07/01/10	\$ -	\$ 48,462	\$ 48,462	0.0%	\$ 16,023	302.5%

See Independent Auditors' Report.