

TOWN OF NATICK, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC
Corporate Place I, Suite 204 • 99 South Bedford Street
Burlington, Massachusetts 01803
P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Natick, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Natick, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Natick Contributory Retirement System, which is as of and for the year ended December 31, 2011), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Natick, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Morse Institute in Natick, a discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in these financial statements, is based solely on the report of the other auditor.

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. The financial statements of the Morse Institute in Natick were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other auditor provide a reasonable basis for our opinions.

As more fully described in Note 1, the financial statements of the Morse Institute in Natick were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on the report of the other auditor, the financial statements of the Morse Institute in Natick referred to above, presents fairly, in all material respects, the financial position of the Morse Institute in Natick as of June 30, 2012, and the change in financial position for the year then ended in conformity with the basis of accounting as described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Natick, Massachusetts, as of June 30, 2012 (except for the Natick Contributory Retirement System, which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of the Town of Natick, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 63 through 68) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



April 30, 2013

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$140,958,063 (net assets). The Town's governmental activities has an unrestricted net deficit of \$8,831,963 and its business-type activities unrestricted net assets total \$8,478,296.
- The Town's total net assets increased by \$23,492,677.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$63,700,688, a decrease of \$5,871,369 in comparison with the prior year. Approximately \$14,041,000 represents unassigned fund balance.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$14,510,553, or 12.1 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt increased by \$7,485,389 during the fiscal year. The Town issued \$17,086,845 of new debt during the year for refunding, building remodeling, community/senior center construction, paving, departmental equipment and water/sewer related items.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

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

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

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

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

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

Fund financial statements

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

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

Governmental Funds

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

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

The Town maintains 575 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, high school project (capital project) and debt service funds, each of which are considered to be major funds. Data from the other 572 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer and golf course operations. The water and sewer enterprise fund is considered to be major fund, while the golf course enterprise fund is considered nonmajor.

The basic proprietary funds financial statements can be found on pages 22-24 of this report.

Fiduciary funds

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

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

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-61 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other post employment benefit information, which can be found on pages 63-68.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$140,958,063 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets.....	\$ 76,294,320	\$ 84,198,267	\$ 13,554,667	\$ 11,566,354	\$ 89,848,987	\$ 95,764,621
Noncurrent assets (excluding capital assets).....	498,092	4,997,283	1,772,654	1,912,169	2,270,746	6,909,452
Capital assets (net).....	167,555,940	119,889,564	36,293,111	36,091,595	203,849,051	155,981,159
Total assets.....	244,348,352	209,085,114	51,620,432	49,570,118	295,968,784	258,655,232
Liabilities						
Current liabilities (excluding debt).....	9,290,635	11,056,394	497,015	300,121	9,787,650	11,356,515
Noncurrent liabilities (excluding debt).....	33,450,473	25,734,161	795,556	607,517	34,246,029	26,341,678
Current debt.....	23,952,875	7,633,388	3,947,533	1,968,068	27,900,408	9,601,456
Noncurrent debt.....	69,734,713	80,117,918	13,341,921	13,772,279	83,076,634	93,890,197
Total liabilities.....	136,428,696	124,541,861	18,582,025	16,647,985	155,010,721	141,189,846
Net Assets						
Invested in capital assets (net of related debt).....	95,577,942	72,206,901	24,560,111	22,834,395	120,138,053	95,041,296
Restricted.....	21,173,677	15,528,014	-	-	21,173,677	15,528,014
Unrestricted.....	(8,831,963)	(3,191,662)	8,478,296	10,087,738	(353,667)	6,896,076
Total net assets.....	\$ 107,919,656	\$ 84,543,253	\$ 33,038,407	\$ 32,922,133	\$ 140,958,063	\$ 117,465,386

The largest portion of the Town's net assets (\$120,138,053) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, library books and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (\$21,173,677) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$353,667. Of this amount \$8,478,296 may be used to support business-type activities and (\$8,831,963) represents an unrestricted net deficit in governmental activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets for business-type activities. For governmental activities, positive balances are reported in each category except for unrestricted net assets. Such resources have been consumed with the recognition of other postemployment benefit liabilities.

Changes in Net Assets

For the fiscal year ended June 30, 2012, the Town's total net assets increased by \$23,492,677, compared to an increase of \$14,972,752 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 10,654,623	\$ 11,198,200	\$ 12,417,443	\$ 13,922,606	\$ 23,072,066	\$ 25,120,806
Operating grants and contributions.....	25,696,629	24,853,375	348,380	112,094	26,045,009	24,965,469
Capital grants and contributions.....	20,632,775	14,724,720	292,095	-	20,924,870	14,724,720
<i>General Revenues:</i>						
Real estate and personal property taxes.....	87,479,792	80,808,463	-	-	87,479,792	80,808,463
Motor vehicle and other excise taxes.....	4,107,257	4,012,842	-	-	4,107,257	4,012,842
Hotel/motel taxes.....	1,297,423	1,151,127	-	-	1,297,423	1,151,127
Penalties and interest on taxes.....	424,185	541,724	-	-	424,185	541,724
Payments in lieu of taxes.....	47,583	28,866	-	-	47,583	28,866
Grants and contributions not restricted to specific programs.....	4,293,522	4,213,625	-	-	4,293,522	4,213,625
Unrestricted investment income.....	155,369	71,716	-	-	155,369	71,716
Other.....	-	128,914	-	-	-	128,914
Total revenues.....	154,789,158	141,733,572	13,057,918	14,034,700	167,847,076	155,768,272
Expenses						
General government.....	6,872,194	6,517,046	-	-	6,872,194	6,517,046
Public safety.....	21,315,567	20,511,919	-	-	21,315,567	20,511,919
Education.....	84,644,263	82,798,202	-	-	84,644,263	82,798,202
Public works.....	9,991,022	10,898,009	-	-	9,991,022	10,898,009
Health and human services.....	2,402,827	2,279,971	-	-	2,402,827	2,279,971
Culture and recreation.....	2,113,165	2,188,230	-	-	2,113,165	2,188,230
Library.....	3,039,120	2,968,913	-	-	3,039,120	2,968,913
Debt service - interest.....	3,250,485	1,769,072	-	-	3,250,485	1,769,072
Water and Sewer.....	-	-	9,925,196	10,059,920	9,925,196	10,059,920
Golf.....	-	-	800,560	804,238	800,560	804,238
Total expenses.....	133,628,643	129,931,362	10,725,756	10,864,158	144,354,399	140,795,520
Change in net assets before transfers.....	21,160,515	11,802,210	2,332,162	3,170,542	23,492,677	14,972,752
Transfers, net.....	2,215,888	2,115,257	(2,215,888)	(2,115,257)	-	-
Change in net assets.....	23,376,403	13,917,467	116,274	1,055,285	23,492,677	14,972,752
Net assets - beginning of year.....	84,543,253	70,625,786	32,922,133	31,866,848	117,465,386	102,492,634
Net assets - end of year.....	\$ 107,919,656	\$ 84,543,253	\$ 33,038,407	\$ 32,922,133	\$ 140,958,063	\$ 117,465,386

Governmental activities increased the Town's net assets by \$23,376,403. In the prior year, governmental activities increased the Town's net assets by \$13,917,467. The key element of this change is an increase in capital grants and contributions of approximately \$5,900,000 due to MSBA receipts for the new high school and capital contributions for the Town's skating rink.

Business-type activities increased the Town's net assets by \$116,274. In the prior year, business-type activities increased the Town's net assets by \$1,055,285. The key element of this change is a decrease in water and sewer consumption when compared to the prior year.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$63,700,688, a decrease of \$5,871,369 in comparison with the prior year. 22.0% of this total amount (\$14,040,937) represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$14,072)
- Restricted (\$40,508,857)
- Committed (\$7,561,388)
- Assigned (\$1,575,434)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$14,510,553, while total fund balance was \$24,674,719. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 12.1% of total general fund expenditures and transfers out, while total fund balance represents 20.6% of that same amount.

The balance of the Town's general fund increased by \$7,350,158 during fiscal year 2012. Although the Town recognized an approximate \$18,194,000 budgetary surplus (excluding encumbrances and continuing appropriations), approximately \$7,328,000 of reserves was utilized for spending during the fiscal year. An important reporting difference to note is that the one-time lump-sum MSBA receipt of \$6,640,698 is reported in the general fund for budgetary purposes; but is reported in the debt service fund in the governmental funds financial statement.

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

The fund balance of the high school project fund (capital project) decreased by \$23,694,277 during the current fiscal year. The fund recognized \$16,333,453 of intergovernmental revenue during the current year and incurred expenditures of \$40,027,730.

The fund balance of the debt service fund increased by \$16,942,273 during the current fiscal year. The fund recognized \$6,640,698 of intergovernmental revenue, \$9,636,670 of proceeds of refunding bonds (current) and a \$664,905 premium from the issuance of refunding bonds (current). Subsequent to year-end, the refunding transaction was completed as the bonds were retired.

Proprietary funds

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

Unrestricted net assets of the water and sewer and golf course enterprise funds at the end of the year amounted to \$8,457,159 and \$21,137, respectively. The water and sewer enterprise fund had a decrease in net assets of \$134,452, whereas the golf course enterprise fund had an increase in net assets for the year totaling \$250,726. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$112,563,895 was increased by \$4,373,854 (3.9%) during the year. The following table summarizes the increase:

<u>Purpose of Increase/Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
Debt service principal.....	\$ 1,953,684	Tax levy
Community services expenses.....	1,230,536	Tax levy
Transfer to capital stabilization fund.....	1,172,076	Unassigned fund balance
Transfer to operational stabilization fund.....	326,544	Tax levy
Debt service interest.....	253,956	Tax levy
School department capital expense.....	252,500	Capital stabilization fund
Police department capital expense.....	207,340	Capital stabilization fund
DPW capital expense.....	156,000	Capital stabilization fund
Community services expenses.....	90,681	Unassigned fund balance
Community development salaries.....	60,000	Tax levy
Public works salaries.....	45,000	Tax levy
Community development capital expense.....	23,000	Capital stabilization fund
Board of health capital expense.....	23,000	Capital stabilization fund
Recreation capital expense.....	15,000	Capital stabilization fund
Fire department salaries.....	14,116	Tax levy
Council on aging capital expense.....	12,500	Capital stabilization fund
Town clerk salaries.....	3,000	Tax levy
Employee benefits.....	(192,862)	Tax levy reduction
Veterans services expenses.....	(292,589)	Tax levy reduction
Human services and council on aging expenses.....	(419,056)	Tax levy reduction
Recreation expenses.....	(560,572)	Tax levy reduction
Total increase.....	\$ 4,373,854	

During the year, general fund revenues and other financing sources and uses exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$13,514,000.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$203,849,051 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, library books and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$47,867,892 or 30.7% (a 30.6% increase for governmental activities and a 0.1% increase for business-type activities).

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

- New high school construction in progress (\$40,027,730)
- Senior center construction in progress (\$6,846,387)
- Water and sewer construction in progress (\$602,916)
- Water and sewer Oak Street drainage improvements (\$413,827)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land.....	\$ 10,124,124	\$ 10,124,124	\$ 1,053,254	\$ 1,053,254	\$ 11,177,378	\$ 11,177,378
Construction in progress.....	78,788,945	31,075,941	5,158,597	5,120,227	83,947,542	36,196,168
Land improvements.....	1,164,626	929,453	1,904,312	1,985,669	3,068,938	2,915,122
Buildings.....	55,917,789	56,654,988	236,357	109,968	56,154,146	56,764,956
Machinery and equipment.....	1,895,228	1,508,384	274,519	192,288	2,169,747	1,700,672
Vehicles.....	3,883,279	3,759,273	534,931	522,118	4,418,210	4,281,391
Library books.....	827,140	833,218	-	-	827,140	833,218
Infrastructure.....	14,954,809	15,004,183	27,131,141	27,108,071	42,085,950	42,112,254
Total capital assets.....	<u>\$ 167,555,940</u>	<u>\$ 119,889,564</u>	<u>\$ 36,293,111</u>	<u>\$ 36,091,595</u>	<u>\$ 203,849,051</u>	<u>\$ 155,981,159</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 43-45 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$110,977,042, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds.....	\$ 93,411,224	\$ 87,423,624	\$ 13,238,776	\$ 11,643,376	\$ 106,650,000	\$ 99,067,000
MWRA notes.....	-	-	243,276	61,908	243,276	61,908
MWPAT notes.....	276,364	327,682	3,807,402	4,035,063	4,083,766	4,362,745
Total bonds and notes.....	<u>\$ 93,687,588</u>	<u>\$ 87,751,306</u>	<u>\$ 17,289,454</u>	<u>\$ 15,740,347</u>	<u>\$ 110,977,042</u>	<u>\$ 103,491,653</u>

The Town's total bonded debt increased by \$7,485,389 (7.2%) during the current fiscal year. \$17,086,845 of new debt was issued during the year for refunding, building remodeling, community/senior center construction, paving, departmental equipment and water/sewer related items.

The Town received an AAA rating from Standard & Poor's for its most recent issuance of long-term debt on June 1, 2012.

Additional information on the Town's long-term debt can be found in Note 9 on page 48-53 of this report.

Economic Factors and Next Year's Budgets

Natick, like all communities in America, continued to deal with the impact of a lingering recession during fiscal year 2012. Although unemployment in Natick remained far below the national average (4.3% in December 2012 compared to a nationally non-seasonally adjusted level of 7.6% unemployment), citizens and the Town of Natick alike faced significant challenges in maintaining the standard of living and services which many had grown accustomed to.

Fiscal year 2012 again found the Town of Natick having to rely on less state aid than in the previous year. Despite this reduction, the fiscal year 2012 budget was brought into balance through higher than anticipated revenues in other categories and substantial reductions in spending requests from departments. Positively, the Town was able to begin the restoration of several positions in key departments for fiscal year 2012, as well as the elimination of long-standing purchasing and hiring freezes originally implemented in fiscal year 2009, as the slow economic recovery continued.

The development of the fiscal year 2013 budget began more optimistically than fiscal year 2012 with at least level state aid predicted, but with the Town still facing a multi-million dollar budget gap. Given the limitations of proposition 2½, Massachusetts communities like Natick are limited to the rate of increase in base property taxes to 2½ percent annually. This places a large burden on other revenue categories to be as robust as possible to maintain services. Fortunately, the fiscal year 2013 budget maintains and enhances services from previous years, makes key restorations to the public schools, the fire service, public works and finance. Higher than anticipated state aid, lower than anticipated health care costs, and favorable contract settlements with many of the Town's collective bargaining associations allowed the fiscal year 2013 to be balanced with service enhancements.

Even with the favorable changes in revenue and restoration of services in fiscal year 2013, future forecasts indicate that further service restoration will be difficult as revenues are not forecast to be robust enough to keep up with future expenses.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 13 East Central Street, Natick, Massachusetts 01760.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Morse Institute
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 28,949,597	\$ 3,835,397	\$ 32,784,994	\$ 628,012
Restricted cash and cash equivalents.....	41,053,725	5,650,933	46,704,658	-
Investments.....	-	-	-	1,619,901
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	2,571,966	-	2,571,966	-
Tax, trash and utility liens.....	1,556,170	220,321	1,776,491	-
Motor vehicle and other excise taxes.....	370,074	-	370,074	-
User charges.....	-	3,289,397	3,289,397	-
Special assessments.....	24,565	134,726	159,291	-
Departmental and other.....	440,832	-	440,832	-
Intergovernmental.....	1,746,838	-	1,746,838	-
Internal balances.....	(419,447)	419,447	-	-
Inventory.....	-	4,446	4,446	-
Total current assets.....	76,294,320	13,554,667	89,848,987	2,247,913
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Real estate tax deferrals.....	313,222	-	313,222	-
Special assessments.....	184,870	1,715,602	1,900,472	-
Intergovernmental.....	-	57,052	57,052	-
Capital assets not being depreciated.....	88,913,069	6,211,851	95,124,920	-
Capital assets, net of accumulated depreciation.....	78,642,871	30,081,260	108,724,131	-
Total noncurrent assets.....	168,054,032	38,065,765	206,119,797	-
Total assets.....	244,348,352	51,620,432	295,968,784	2,247,913
LIABILITIES				
Current liabilities:				
Warrants payable.....	3,978,916	204,779	4,183,695	-
Accrued payroll.....	1,598,512	93,098	1,691,610	-
Tax refunds payable.....	2,331,260	-	2,331,260	-
Other liabilities.....	540,281	-	540,281	-
Accrued interest.....	545,480	190,057	735,537	-
Workers' compensation claims.....	53,261	-	53,261	-
Landfill post-closure.....	34,043	-	34,043	-
Compensated absences.....	208,882	9,081	217,963	-
Long-term bonds and notes payable.....	23,952,875	3,947,533	27,900,408	-
Total current liabilities.....	33,243,510	4,444,548	37,688,058	-
Noncurrent liabilities:				
Workers' compensation claims.....	53,261	-	53,261	-
Landfill post-closure.....	476,602	-	476,602	-
Compensated absences.....	1,879,936	81,730	1,961,666	-
Net OPEB obligation.....	31,040,674	713,826	31,754,500	-
Long-term bonds and notes payable.....	69,734,713	13,341,921	83,076,634	-
Total noncurrent liabilities.....	103,185,186	14,137,477	117,322,663	-
Total liabilities.....	136,428,696	18,582,025	155,010,721	-
NET ASSETS				
Invested in capital assets, net of related debt.....	95,577,942	24,560,111	120,138,053	-
Restricted for:				
Debt service.....	9,800,217	-	9,800,217	-
Permanent funds:				
Expendable.....	88,290	-	88,290	-
Nonexpendable.....	14,072	-	14,072	1,111,225
Other specific purposes.....	11,271,098	-	11,271,098	-
Unrestricted.....	(8,831,963)	8,478,296	(353,667)	1,136,688
Total net assets.....	\$ 107,919,656	\$ 33,038,407	\$ 140,958,063	\$ 2,247,913

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 6,872,194	\$ 1,317,147	\$ 810,361	\$ -	\$ (4,744,686)
Public safety.....	21,315,567	3,300,843	138,322	-	(17,876,402)
Education.....	84,644,263	3,454,264	23,019,039	18,814,550	(39,356,410)
Public works.....	9,991,022	1,251,475	186,535	842,141	(7,710,871)
Health and human services.....	2,402,827	213,676	316,887	-	(1,872,264)
Culture and recreation.....	2,113,165	1,049,263	194,322	976,084	106,504
Library.....	3,039,120	67,955	29,000	-	(2,942,165)
Debt service - interest.....	3,250,485	-	1,002,163	-	(2,248,322)
Total governmental activities.....	<u>133,628,643</u>	<u>10,654,623</u>	<u>25,696,629</u>	<u>20,632,775</u>	<u>(76,644,616)</u>
Business-type activities:					
Water and Sewer.....	9,925,196	11,840,748	324,829	161,055	2,401,436
Golf.....	800,560	576,695	23,551	131,040	(69,274)
Total business-type activities.....	<u>10,725,756</u>	<u>12,417,443</u>	<u>348,380</u>	<u>292,095</u>	<u>2,332,162</u>
Total primary government.....	<u>\$ 144,354,399</u>	<u>\$ 23,072,066</u>	<u>\$ 26,045,009</u>	<u>\$ 20,924,870</u>	<u>\$ (74,312,454)</u>
Component units:					
Morse Institute.....	<u>\$ 288,563</u>	<u>\$ 2,862</u>	<u>\$ 286,452</u>	<u>\$ -</u>	<u>\$ 751</u>

(Continued)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets:				
Net (expense)/revenue (from previous page).....	\$ <u>(76,644,616)</u>	\$ <u>2,332,162</u>	\$ <u>(74,312,454)</u>	\$ <u>751</u>
<i>General revenues:</i>				
Real estate and personal property taxes.....	87,479,792	-	87,479,792	-
Motor vehicle and other excise taxes.....	4,107,257	-	4,107,257	-
Hotel/motel taxes.....	1,297,423	-	1,297,423	-
Penalties and interest on taxes.....	424,185	-	424,185	-
Payments in lieu of taxes.....	47,583	-	47,583	-
Grants and contributions not restricted to specific programs.....	4,293,522	-	4,293,522	-
Unrestricted investment income.....	155,369	-	155,369	-
Transfers, net.....	2,215,888	(2,215,888)	-	-
Total general revenues and transfers.....	<u>100,021,019</u>	<u>(2,215,888)</u>	<u>97,805,131</u>	<u>-</u>
Change in net assets.....	23,376,403	116,274	23,492,677	751
Net assets - beginning of year.....	<u>84,543,253</u>	<u>32,922,133</u>	<u>117,465,386</u>	<u>2,247,162</u>
Net assets - end of year.....	\$ <u><u>107,919,656</u></u>	\$ <u><u>33,038,407</u></u>	\$ <u><u>140,958,063</u></u>	\$ <u><u>2,247,913</u></u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2012

ASSETS	General	High School Project Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 28,949,597	\$ -	\$ -	\$ -	\$ 28,949,597
Receivables, net of allowance for uncollectible amounts:					
Real estate and personal property taxes.....	2,571,966	-	-	-	2,571,966
Real estate tax deferrals.....	313,222	-	-	-	313,222
Tax and trash liens.....	1,556,170	-	-	-	1,556,170
Motor vehicle and other excise taxes.....	370,074	-	-	-	370,074
Special assessments.....	32,957	-	-	176,478	209,435
Departmental and other.....	440,832	-	-	-	440,832
Intergovernmental.....	125,231	1,470,106	-	151,501	1,746,838
Restricted assets:					
Cash and cash equivalents.....	1,027,344	2,628,855	16,942,273	20,455,253	41,053,725
TOTAL ASSETS.....	\$ 35,387,393	\$ 4,098,961	\$ 16,942,273	\$ 20,783,232	\$ 77,211,859
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 1,533,275	\$ 1,244,918	\$ -	\$ 1,200,723	\$ 3,978,916
Accrued payroll.....	1,475,420	-	-	123,092	1,598,512
Tax refunds payable.....	2,331,260	-	-	-	2,331,260
Other liabilities.....	540,281	-	-	-	540,281
Deferred revenue.....	4,412,991	-	-	229,764	4,642,755
Due to other funds.....	419,447	-	-	-	419,447
TOTAL LIABILITIES.....	10,712,674	1,244,918	-	1,553,579	13,511,171
FUND BALANCES:					
Nonspendable.....	-	-	-	14,072	14,072
Restricted.....	1,027,344	2,854,043	16,942,273	19,685,197	40,508,857
Committed.....	7,561,388	-	-	-	7,561,388
Assigned.....	1,575,434	-	-	-	1,575,434
Unassigned.....	14,510,553	-	-	(469,616)	14,040,937
TOTAL FUND BALANCES.....	24,674,719	2,854,043	16,942,273	19,229,653	63,700,688
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 35,387,393	\$ 4,098,961	\$ 16,942,273	\$ 20,783,232	\$ 77,211,859

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances (page 18).....	\$	63,700,688
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		167,555,940
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		4,642,755
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(545,480)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(93,687,588)
Workers' compensation claims.....		(106,522)
Landfill post-closure.....		(510,645)
Compensated absences.....		(2,088,818)
Net OPEB obligation.....		<u>(31,040,674)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>107,919,656</u></u>

See notes to basic financial statements.

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

	General	High School Project Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real estate and personal property taxes.....	\$ 86,753,804	\$ -	\$ -	\$ -	\$ 86,753,804
Motor vehicle and other excise taxes.....	4,084,364	-	-	-	4,084,364
Hotel/motel tax.....	1,297,423	-	-	-	1,297,423
Tax and trash liens.....	517,430	-	-	-	517,430
Payments in lieu of taxes.....	47,583	-	-	-	47,583
Trash disposal.....	847,990	-	-	-	847,990
Intergovernmental.....	23,498,855	16,333,453	6,640,698	6,324,326	52,797,332
Special assessments.....	4,671	-	-	23,677	28,348
Penalties and interest on taxes.....	424,185	-	-	-	424,185
Licenses and permits.....	2,274,500	-	-	-	2,274,500
Fines and forfeitures.....	222,511	-	-	67,955	290,466
Departmental and other.....	2,498,706	-	-	5,106,282	7,604,988
Contributions.....	-	-	-	610,858	610,858
Investment income.....	164,507	-	-	18,541	183,048
TOTAL REVENUES.....	122,636,529	16,333,453	6,640,698	12,151,639	157,762,319
EXPENDITURES					
Current:					
General government.....	4,352,501	-	-	883,466	5,235,967
Public safety.....	13,108,643	-	-	490,864	13,599,507
Education.....	48,140,666	40,027,730	-	9,079,891	97,248,287
Public works.....	7,101,082	-	-	2,310,053	9,411,135
Health and human services.....	1,177,181	-	-	6,914,752	8,091,933
Culture and recreation.....	649,226	-	-	1,320,980	1,970,206
Library.....	1,980,929	-	-	97,954	2,078,883
Pension benefits.....	16,015,595	-	-	-	16,015,595
Employee benefits.....	14,136,222	-	-	-	14,136,222
Property and liability insurance.....	445,100	-	-	-	445,100
State and county charges.....	1,242,987	-	-	-	1,242,987
Debt service:					
Principal.....	7,633,388	-	-	-	7,633,388
Interest.....	3,303,650	-	-	-	3,303,650
TOTAL EXPENDITURES.....	119,287,170	40,027,730	-	21,097,960	180,412,860
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	3,349,359	(23,694,277)	6,640,698	(8,946,321)	(22,650,541)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	4,069,489	-	-	77,399	4,146,888
Proceeds of bonds and notes.....	-	-	-	3,933,000	3,933,000
Premium from issuance of bonds and notes.....	328,709	-	-	-	328,709
Proceeds of refunding bonds (current).....	-	-	9,636,670	-	9,636,670
Premium from issuance of refunding bonds (current).....	-	-	664,905	-	664,905
Transfers out.....	(397,399)	-	-	(1,533,601)	(1,931,000)
TOTAL OTHER FINANCING SOURCES (USES).....	4,000,799	-	10,301,575	2,476,798	16,779,172
NET CHANGE IN FUND BALANCES.....	7,350,158	(23,694,277)	16,942,273	(6,469,523)	(5,871,369)
FUND BALANCES AT BEGINNING OF YEAR.....	17,324,561	26,548,320	-	25,699,176	69,572,057
FUND BALANCES AT END OF YEAR.....	\$ 24,674,719	\$ 2,854,043	\$ 16,942,273	\$ 19,229,653	\$ 63,700,688

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page 20).....	\$	(5,871,369)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		52,004,863
Depreciation.....		(4,320,334)
<p>In the statement of activities, the loss on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.....</p>		
		(18,153)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(4,942,860)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(3,933,000)
Proceeds of refunding bonds.....		(9,636,670)
Bond maturities.....		7,633,388
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		53,166
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Workers' compensation.....		243,148
Landfill post-closure.....		34,043
Compensated absences.....		21,102
Net OPEB obligation.....		(7,890,921)
Changes in net assets of governmental activities (page 17).....	\$	<u>23,376,403</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS**

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Nonmajor Golf	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 3,704,622	\$ 130,775	\$ 3,835,397
Restricted cash and cash equivalents.....	5,274,934	375,999	5,650,933
Receivables, net of allowance for uncollectible amounts:			
Utility liens.....	220,321	-	220,321
User charges.....	3,289,397	-	3,289,397
Special assessments.....	134,726	-	134,726
Due from other funds.....	419,447	-	419,447
Inventory.....	-	4,446	4,446
Total current assets.....	<u>13,043,447</u>	<u>511,220</u>	<u>13,554,667</u>
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Special assessments.....	1,715,602	-	1,715,602
Intergovernmental.....	57,052	-	57,052
Capital assets not being depreciated.....	5,537,852	673,999	6,211,851
Capital assets, net of accumulated depreciation.....	<u>28,068,182</u>	<u>2,013,078</u>	<u>30,081,260</u>
Total noncurrent assets.....	<u>35,378,688</u>	<u>2,687,077</u>	<u>38,065,765</u>
Total assets.....	<u>48,422,135</u>	<u>3,198,297</u>	<u>51,620,432</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	195,008	9,771	204,779
Accrued payroll.....	82,723	10,375	93,098
Accrued interest.....	167,213	22,844	190,057
Compensated absences.....	9,081	-	9,081
Long-term bonds and notes payable.....	<u>3,386,757</u>	<u>560,776</u>	<u>3,947,533</u>
Total current liabilities.....	<u>3,840,782</u>	<u>603,766</u>	<u>4,444,548</u>
Noncurrent liabilities:			
Compensated absences.....	81,730	-	81,730
Net OPEB obligation.....	642,732	71,094	713,826
Long-term bonds and notes payable.....	<u>11,726,921</u>	<u>1,615,000</u>	<u>13,341,921</u>
Total noncurrent liabilities.....	<u>12,451,383</u>	<u>1,686,094</u>	<u>14,137,477</u>
Total liabilities.....	<u>16,292,165</u>	<u>2,289,860</u>	<u>18,582,025</u>
FUND NET ASSETS			
Invested in capital assets, net of related debt.....	23,672,811	887,300	24,560,111
Unrestricted.....	<u>8,457,159</u>	<u>21,137</u>	<u>8,478,296</u>
Total net assets.....	<u>\$ 32,129,970</u>	<u>\$ 908,437</u>	<u>\$ 33,038,407</u>

See notes to basic financial statements.

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

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Nonmajor Golf</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services.....	\$ 11,833,548	\$ 576,695	\$ 12,410,243
Other.....	7,200	-	7,200
TOTAL OPERATING REVENUES.....	11,840,748	576,695	12,417,443
OPERATING EXPENSES			
Cost of service and administration.....	3,385,136	605,961	3,991,097
MWRA assessment.....	4,460,551	-	4,460,551
Repairs and maintenance.....	290,261	11,876	302,137
Depreciation.....	1,236,833	85,077	1,321,910
TOTAL OPERATING EXPENSES.....	9,372,781	702,914	10,075,695
OPERATING INCOME (LOSS).....	2,467,967	(126,219)	2,341,748
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental.....	78,649	-	78,649
Premium from issuance of bonds and notes.....	108,973	-	108,973
Premium from issuance of refunding bonds (current).....	117,227	23,551	140,778
Investment income.....	19,980	-	19,980
Interest expense.....	(552,415)	(97,646)	(650,061)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(227,586)	(74,095)	(301,681)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS....	2,240,381	(200,314)	2,040,067
Capital contributions.....	161,055	131,040	292,095
Transfers in.....	-	320,000	320,000
Transfers out.....	(2,535,888)	-	(2,535,888)
CHANGE IN FUND NET ASSETS.....	(134,452)	250,726	116,274
FUND NET ASSETS AT BEGINNING OF YEAR.....	32,264,422	657,711	32,922,133
FUND NET ASSETS AT END OF YEAR.....	\$ 32,129,970	\$ 908,437	\$ 33,038,407

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Nonmajor Golf	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 12,197,760	\$ 576,442	\$ 12,774,202
Payments to vendors.....	(6,188,202)	(437,872)	(6,626,074)
Payments to employees.....	(1,583,682)	(147,453)	(1,731,135)
NET CASH FROM OPERATING ACTIVITIES.....	4,425,876	(8,883)	4,416,993
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	-	320,000	320,000
Transfers out.....	(2,535,888)	-	(2,535,888)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(2,535,888)	320,000	(2,215,888)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the issuance of bonds and notes.....	1,476,845	-	1,476,845
Proceeds from the issuance of refunding bonds.....	1,699,000	341,330	2,040,330
Premium from issuance of bonds and notes.....	108,973	-	108,973
Premium from issuance of refunding bonds.....	117,227	23,551	140,778
Capital contributions.....	161,055	-	161,055
Acquisition and construction of capital assets.....	(1,383,866)	(8,520)	(1,392,386)
Principal payments on bonds and notes.....	(1,772,138)	(195,930)	(1,968,068)
Interest expense.....	(483,653)	(99,402)	(583,055)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(76,557)	61,029	(15,528)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	19,980	-	19,980
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,833,411	372,146	2,205,557
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
(Includes \$2,437,083 and \$11,118 reported as restricted in the water and sewer and golf course enterprise funds, respectively).....	7,146,145	134,628	7,280,773
CASH AND CASH EQUIVALENTS AT END OF YEAR			
(Includes \$5,274,934 and \$375,999 reported as restricted in the water and sewer and golf course enterprise funds, respectively).....	\$ 8,979,556	\$ 506,774	\$ 9,486,330
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 2,467,967	\$ (126,219)	\$ 2,341,748
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities not requiring current cash flows:			
Depreciation.....	1,236,833	85,077	1,321,910
Net OPEB obligation.....	166,347	21,740	188,087
Changes in assets and liabilities requiring current cash flows:			
Utility liens.....	(43,371)	-	(43,371)
User charges.....	256,988	-	256,988
Special assessments.....	143,395	-	143,395
Inventory.....	-	(253)	(253)
Warrants payable.....	186,354	9,072	195,426
Accrued payroll.....	11,416	1,700	13,116
Compensated absences.....	(53)	-	(53)
Total adjustments.....	1,957,909	117,336	2,075,245
NET CASH FROM OPERATING ACTIVITIES.....	\$ 4,425,876	\$ (8,883)	\$ 4,416,993
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Intergovernmental debt subsidies (MWPAT).....	\$ 78,649	\$ -	\$ 78,649
Capital contributions.....	-	131,040	131,040

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

ASSETS	Pension Trust Fund (As of 12/31/11)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 573,298	\$ 370,386	\$ 2,838,620
Investments:			
Equities.....	47,084,023	-	-
Mutual bond funds.....	15,061,282	-	-
Fixed income securities.....	1,655	-	-
Real estate.....	9,550,272	-	-
Alternative.....	4,012,148	-	-
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	3,010,789	-	-
Total assets.....	<u>79,293,467</u>	<u>370,386</u>	<u>2,838,620</u>
LIABILITIES			
Warrants payable.....	-	-	20,868
Accrued payroll.....	-	-	49,077
Liabilities due depositors.....	-	-	2,768,675
Total liabilities.....	<u>-</u>	<u>-</u>	<u>2,838,620</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 79,293,467</u>	<u>\$ 370,386</u>	<u>\$ -</u>

See notes to basic financial statements.

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

	<u>Pension Trust Fund (As of 12/31/11)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 5,916,754	\$ -
Plan members.....	<u>2,521,682</u>	<u>-</u>
Total contributions.....	<u>8,438,436</u>	<u>-</u>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	(2,724,371)	-
Interest.....	<u>3,347,837</u>	<u>870</u>
Total investment income (loss).....	623,466	870
Less investment expense.....	<u>(328,074)</u>	<u>-</u>
Net investment income (loss).....	<u>295,392</u>	<u>870</u>
Intergovernmental.....	<u>277,033</u>	<u>-</u>
Transfers from other systems.....	<u>517,488</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>9,528,349</u>	<u>870</u>
DEDUCTIONS		
Administration.....	199,630	-
Retirement benefits and refunds.....	8,643,276	-
Transfers to other systems.....	<u>630,552</u>	<u>-</u>
TOTAL DEDUCTIONS.....	<u>9,473,458</u>	<u>-</u>
CHANGE IN NET ASSETS.....	54,891	870
NET ASSETS AT BEGINNING OF YEAR.....	<u>79,238,576</u>	<u>369,516</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 79,293,467</u>	<u>\$ 370,386</u>

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete.

Fiduciary Fund Component Unit

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

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

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 13 East Central Street, Natick, Massachusetts 01760.

Discretely Presented Component Unit

Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town has included the Morse Institute in Natick (Institute) as a discretely presented component unit because it is fiscally dependent on the Town and because the nature and significance of its relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading.

The Institute provides support to enhance the operations of the Town's public library and is exempt from federal and state income taxes as it is established under Section 501(c)(3) of the Internal Revenue Code.

The Institute issues separately audited cash basis financial statements, which is a comprehensive basis of accounting other than GAAP. The main difference is that the effect on earnings from accounts and pledges receivable as well as accounts payable and donated services are not recognized. Complete financial statements of the Institute, audited by another auditor, can be obtained directly from the Institute by contacting the Director at 14 East Central Street, Natick, Massachusetts 01760.

Joint Venture

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

The Town participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

South Middlesex Regional Vocational Technical High School District

The Town is indirectly liable for the South Middlesex Regional Vocational Technical High School District (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's fiscal year 2011 assessment total approximately \$1,397,000. Separate audited financial statements may be obtained by contacting the District at 750 Winter Street, Framingham, Massachusetts 01702.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *high school project fund* is a capital projects fund used to account for the design and construction of a new high school.

The *debt service fund* is used to account for the fiscal year 2012 current refunding transaction that was completed in fiscal year 2013 (see Note 9).

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

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

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

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

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

The following proprietary funds are reported:

The *water and sewer* enterprise fund is reported as a major fund and is used to account for the Town's water and sewer activities.

The *golf course* enterprise fund is reported as a nonmajor fund and is used to account for the Sassamon Trace golf course activities.

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

The following fiduciary fund types are reported:

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

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

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

E. Deposits and Investments

Government-Wide and Fund Financial Statements

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

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

Pooled Funds

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

Alternative Investments

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

Real Estate

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

User Charges (Water and Sewer)

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

Special Assessments

Special assessments consist of sewer, sidewalk, street, RUST and Title V betterments and are recorded as receivables in the fiscal year accrued.

Departmental and Other

Departmental and other receivables primarily consist primarily of ambulance, police details and trash ("Pay as you Throw" (PAYT) program) and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

G. Allowance for Uncollectible Amounts

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

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other (excluding the PAYT program)

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

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

Intergovernmental receivables are considered 100% collectible.

*H. Inventories*Government-Wide and Fund Financial Statements

Inventories of the governmental activities, governmental funds and water and sewer enterprise fund are recorded as expenditures at the time of purchase. Such inventories are not material in total to the respective financial statements and therefore are not reported.

Inventories of the golf course enterprise fund are stated at weighted average cost.

*I. Restricted Assets*Government-Wide and Fund Financial Statements

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

*J. Capital Assets*Government-Wide and Proprietary Fund Financial Statements

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

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

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

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	Estimated Useful Life (in years)
Land improvements.....	20-30
Buildings.....	20-40
Machinery and equipment.....	5-10
Vehicles.....	5-15
Library books.....	10
Infrastructure.....	10-50

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

Governmental Fund Financial Statements

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

K. *Interfund Receivables and Payables*

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. *Interfund Transfers*

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. *Deferred Revenue*

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

N. *Net Assets and Fund Balances***Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Assets)**

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

Net assets have been "restricted" for the following:

"Debt service" represents amounts accumulated from the Massachusetts School Building Authority (MSBA) for future payment of long-term debt service costs associated with school construction and net bond premiums associated with excluded debt. These amounts will be amortized over future fiscal years. This amount also represents an MSBA lump-sum payment and refunding bond premium that was utilized to finalize the current refunding transaction subsequent to year-end (see Note 9).

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

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

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

Governmental Funds Financial Statements (Fund Balances)

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

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

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

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

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

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

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

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

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

Investment income derived from the water and sewer enterprise fund is retained in the fund. Investment income derived from the golf course enterprise fund is voluntarily assigned to the general fund.

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 11, the Town provides health and life insurance coverage for current and future retirees and their spouses.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized \$112,563,895 in appropriations and other amounts to be raised. During fiscal year 2012, supplemental appropriations totaling \$4,373,854 were authorized.

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

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, expenditures exceeded appropriations for debt service principal and interest. These over-expenditures will be funded by taxes during fiscal year 2013.

C. Fund Deficits

At June 30, 2012, the following fund deficit exists:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
SPED 94-142.....	\$ 106,759	Federal grant
Title I.....	46,019	Federal grant
Teacher quality.....	44,919	Federal grant
School choice revolving.....	42,540	Available funds
911 departmental support & incentive.....	37,673	State grant
Together 2 substance abuse prevention.....	24,883	Federal grant
911 training fiscal year 2012.....	13,583	State grant
SPED early childhood 2011.....	11,521	Federal grant

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

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

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

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2012, \$16,495,062 of the Town's bank balance of \$82,660,177 was uninsured and uncollateralized.

Investments Summary

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
External investment pools.....	\$ 567,677	\$ 567,677

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

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

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2012, the credit quality ratings of the Town's debt securities of \$567,677 are unrated.

Pension Trust Fund (The System)

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

Deposits - Custodial Credit Risk

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

Investments Summary

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Mutual bond funds.....	\$ 15,061,282	\$ 15,061,282
Fixed income securities.....	1,655	1,655
Total debt securities.....	<u>15,062,937</u>	<u>\$ 15,062,937</u>
<u>Other Investments:</u>		
Equity mutual funds.....	47,084,023	
Real estate investments.....	9,550,272	
Alternative investments.....	<u>4,012,148</u>	
Total other investments.....	<u>60,646,443</u>	
Total investments.....	<u>\$ 75,709,380</u>	

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System's policy regarding interest rate risk is that the duration of the fixed income portfolio shall be maintained within a range of +/- 15% of the duration of the fixed income benchmark designated in the "Manager Specific Guidelines".

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2011, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System's policy regarding credit risk is that the average quality of all bond holding should be maintained at A or better unless otherwise stated in the "Manager Specific Guidelines". As of December 31, 2011, the credit quality ratings of the System's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *
Mutual bond funds.....	\$ 15,061,282	\$ 15,061,282
Fixed income securities.....	1,655	1,655
Total.....	\$ 15,062,937	\$ 15,062,937

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

*The Institute (Discretely Presented Component Unit)*Investments Summary

The Institute's investments at June 30, 2012 are presented below. All investments are presented by investment type.

Investment Type	Fair Value
Corporate bonds.....	\$ 419,816
Common and preferred stock.....	1,200,085
Total investments.....	\$ 1,619,901

NOTE 4 - ACCOUNTS RECEIVABLE

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 2,644,523	\$ (72,557)	\$ 2,571,966
Real estate tax deferrals.....	313,222	-	313,222
Tax and trash liens.....	1,556,170	-	1,556,170
Motor vehicle and other excise taxes.....	504,679	(134,605)	370,074
Special assessments.....	209,435	-	209,435
Departmental and other.....	747,726	(306,894)	440,832
Intergovernmental.....	4,757,627	-	4,757,627
	<u>\$ 10,733,382</u>	<u>\$ (514,056)</u>	<u>\$ 10,219,326</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Utility liens.....	\$ 220,321	\$ -	\$ 220,321
User charges.....	3,289,397	-	3,289,397
Special assessments.....	1,850,328	-	1,850,328
Intergovernmental.....	57,052	-	57,052
	<u>\$ 5,417,098</u>	<u>\$ -</u>	<u>\$ 5,417,098</u>

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

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,574,505	\$ -	\$ 1,574,505
Real estate tax deferrals.....	313,222	-	313,222
Tax and trash liens.....	1,556,170	-	1,556,170
Motor vehicle and other excise taxes.....	370,074	-	370,074
Special assessments.....	32,957	176,478	209,435
Departmental and other.....	440,832	-	440,832
Intergovernmental (state chapter 90 roadway).....	-	53,286	53,286
Intergovernmental (other state and federal).....	125,231	-	125,231
	<u>\$ 4,412,991</u>	<u>\$ 229,764</u>	<u>\$ 4,642,755</u>

Natick High School

The Commonwealth has approved grants for school construction assistance. The assistance program, which is administered by the MSBA, provides resources for allowable costs related to the school construction costs. The MSBA has approved a maximum grant totaling approximately \$38,209,000 for the construction costs related to the Natick High School. The grant amount represents approximately 53% of the total state approved construction cost of approximately \$72,599,000. As of June 30, 2012, approximately \$67,328,000 has been spent on the project and approximately \$30,078,000 in MSBA grants has been accrued. At June 30, 2012, a \$1,470,106 intergovernmental receivable has been reported in the high school project major governmental fund's financial statements for reimbursable costs incurred to date, but not reimbursed.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,124,124	\$ -	\$ -	\$ 10,124,124
Construction in progress.....	31,075,941	47,772,544	(59,540)	78,788,945
Total capital assets not being depreciated.....	41,200,065	47,772,544	(59,540)	88,913,069
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,509,741	327,789	-	2,837,530
Buildings.....	97,837,350	1,418,148	-	99,255,498
Machinery and equipment.....	4,254,191	756,233	(36,722)	4,973,702
Vehicles.....	6,920,295	751,352	(285,631)	7,386,016
Library books.....	2,481,594	168,441	-	2,650,035
Infrastructure.....	41,166,738	869,896	-	42,036,634
Total capital assets being depreciated.....	155,169,909	4,291,859	(322,353)	159,139,415
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,580,288)	(92,616)	-	(1,672,904)
Buildings.....	(41,182,362)	(2,155,347)	-	(43,337,709)
Machinery and equipment.....	(2,745,807)	(369,389)	36,722	(3,078,474)
Vehicles.....	(3,161,022)	(609,193)	267,478	(3,502,737)
Library books.....	(1,648,376)	(174,519)	-	(1,822,895)
Infrastructure.....	(26,162,555)	(919,270)	-	(27,081,825)
Total accumulated depreciation.....	(76,480,410)	(4,320,334)	304,200	(80,496,544)
Total capital assets being depreciated, net.....	78,689,499	(28,475)	(18,153)	78,642,871
Total governmental activities capital assets, net.....	\$ 119,889,564	\$ 47,744,069	\$ (77,693)	\$ 167,555,940

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activity- Water/Sewer Enterprise:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,255	\$ -	\$ -	\$ 379,255
Construction in progress.....	5,120,227	602,916	(564,546)	5,158,597
Total capital assets not being depreciated.....	5,499,482	602,916	(564,546)	5,537,852
<u>Capital assets being depreciated:</u>				
Land improvements.....	189,023	-	-	189,023
Machinery and equipment.....	680,487	132,533	(12,800)	800,220
Vehicles.....	1,178,369	104,722	(21,933)	1,261,158
Infrastructure.....	50,575,696	1,108,241	-	51,683,937
Total capital assets being depreciated.....	52,623,575	1,345,496	(34,733)	53,934,338
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(51,981)	(9,451)	-	(61,432)
Machinery and equipment.....	(488,199)	(50,302)	12,800	(525,701)
Vehicles.....	(656,251)	(91,909)	21,933	(726,227)
Infrastructure.....	(23,467,625)	(1,085,171)	-	(24,552,796)
Total accumulated depreciation.....	(24,664,056)	(1,236,833)	34,733	(25,866,156)
Total capital assets being depreciated, net.....	27,959,519	108,663	-	28,068,182
Total water/sewer enterprise capital assets, net.....	\$ 33,459,001	\$ 711,579	\$ (564,546)	\$ 33,606,034

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activity- Golf Course Enterprise:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 673,999	\$ -	\$ -	\$ 673,999
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,647,119	8,520	-	2,655,639
Buildings.....	120,513	131,040	-	251,553
Machinery and equipment.....	127,478	-	-	127,478
Total capital assets being depreciated.....	2,895,110	139,560	-	3,034,670
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(798,492)	(80,426)	-	(878,918)
Buildings.....	(10,545)	(4,651)	-	(15,196)
Machinery and equipment.....	(127,478)	-	-	(127,478)
Total accumulated depreciation.....	(936,515)	(85,077)	-	(1,021,592)
Total capital assets being depreciated, net.....	1,958,595	54,483	-	2,013,078
Total golf course enterprise capital assets, net.....	\$ 2,632,594	\$ 54,483	\$ -	\$ 2,687,077
Total business-type activities capital assets, net.....	\$ 36,091,595	\$ 766,062	\$ (564,546)	\$ 36,293,111

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

Governmental Activities:

General government.....	\$ 185,497
Public safety.....	701,006
Education.....	1,658,885
Public works.....	1,372,924
Health and human services.....	6,926
Culture and recreation.....	220,577
Library.....	174,519

Total depreciation expense - governmental activities..... \$ 4,320,334

Business-Type Activities:

Water and sewer.....	\$ 1,236,833
Golf.....	85,077

Total depreciation expense - business-type activities..... \$ 1,321,910

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2012, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer Fund.....	General Fund.....	\$ <u>419,447</u> (1)

(1) Represents over-allocations of retirement benefits in previous fiscal years.

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

<u>Transfers Out:</u>	<u>Transfers In:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Golf Course Enterprise Fund</u>	
General Fund.....	\$ -	\$ 77,399	\$ 320,000	\$ 397,399 (1)
Nonmajor Governmental Funds.....	1,533,601	-	-	1,533,601 (2)
Water/Sewer Enterprise Fund.....	<u>2,535,888</u>	<u>-</u>	<u>-</u>	<u>2,535,888</u> (3)
	<u>\$ 4,069,489</u>	<u>\$ 77,399</u>	<u>\$ 320,000</u>	<u>\$ 4,466,888</u>

(1) Represents transfer to the weights and measures special revenue fund (\$12,399) and capital improvements fund (\$65,000). Also represents funding of debt service (\$320,000) for the Sassamon Trace Golf Course.

(2) Represents budgeted transfers from parking meters (\$60,000); Title V (\$7,684); MSBA (\$123,167); mall mitigation (\$362,750) and mathworks mitigation (\$980,000) special revenue funds

(3) Represents budgeted transfer of indirect costs

NOTE 7 - SHORT-TERM FINANCING

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

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

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

The Town has no short-term debt outstanding at June 30, 2012, and did not issue or retire any short-term debt during the fiscal year.

NOTE 8 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 87,751,306	\$ 13,569,670	\$ (7,633,388)	\$ 93,687,588	\$ 23,952,875
Workers' compensation claims....	349,670	-	(243,148)	106,522	53,261
Landfill post-closure.....	544,688	-	(34,043)	510,645	34,043
Net OPEB obligation.....	23,149,753	11,281,643	(3,390,722)	31,040,674	-
Compensated absences.....	2,109,920	-	(21,102)	2,088,818	208,882
Total.....	\$ 113,905,337	\$ 24,851,313	\$ (11,322,403)	\$ 127,434,247	\$ 24,249,061
Business-type Activities:					
Bonds and notes payable.....	\$ 15,740,347	\$ 3,517,175	\$ (1,968,068)	\$ 17,289,454	\$ 3,947,533
Net OPEB obligation.....	525,739	268,908	(80,821)	713,826	-
Compensated absences.....	90,864	-	(53)	90,811	9,081
Total.....	\$ 16,356,950	\$ 3,786,083	\$ (2,048,942)	\$ 18,094,091	\$ 3,956,614

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

NOTE 9 - LONG-TERM DEBT

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

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Morse Institute Library.....	5.26%	\$ 595,000	\$ -	\$ (155,000)	\$ 440,000
Landfill Capping.....	5.30%	45,000	-	(10,000)	35,000
Oil Tank Removal / Remediation.....	5.29%	170,000	-	(45,000)	125,000
Morse Institute Library.....	5.30%	835,000	-	(220,000)	615,000
Municipal Complex (Town Hall / Safety).....	5.29%	180,000	-	(50,000)	130,000
Landfill Capping.....	4.73%	1,000,000	-	(125,000)	875,000
Morse Institute Library.....	4.67%	750,000	-	(125,000)	625,000
Municipal Complex (Town Hall / Safety).....	4.67%	3,000,000	-	(500,000)	2,500,000
Municipal Complex (Town Hall / Safety).....	4.87%	3,500,000	-	(500,000)	3,000,000
Landfill Capping (Net of Surplus to G.C.).....	4.93%	999,624	-	(114,070)	885,554
Septic Title V (MWPAT) T5-97-1026.....	0.00%	68,925	-	(7,735)	61,190
Storm Water (MWPAT).....	0.00%	62,397	-	(30,956)	31,441
Land Acquisition.....	3.12%	240,700	-	(87,000)	153,700
Fuel Storage (Residential).....	3.12%	145,250	-	(52,500)	92,750
Fuel Storage (Municipal).....	3.12%	29,050	-	(10,500)	18,550
Septic Title V (MWPAT) T5-97-1026-1.....	0.00%	61,360	-	(5,127)	56,233
Capital Equipment (FY2007) ATM 2006.....	3.88%	22,000	-	(22,000)	-
Capital Equipment (FY2007) ATM 2006.....	3.88%	3,000	-	(3,000)	-
Lilja School.....	5.30%	80,000	-	(15,000)	65,000
Brown School.....	5.33%	210,000	-	(70,000)	140,000
Lilja School.....	4.70%	175,000	-	(25,000)	150,000
Lilja School.....	4.70%	2,737,000	-	(391,000)	2,346,000
Lilja School.....	4.94%	135,000	-	(15,000)	120,000
Bennet-Hemenway School.....	5.15%	6,600,000	-	(660,000)	5,940,000
Wilson Middle School.....	4.14%	6,385,000	-	(495,000)	5,890,000
Wilson Middle School.....	4.14%	845,000	-	(65,000)	780,000
Kennedy Middle School.....	3.30%	300,000	-	(100,000)	200,000
M.P.L. of 2008.....	3.38-5.00%	2,195,000	-	(455,000)	1,740,000
Septic Title V (MWPAT) T5-97-1026-B.....	0.00%	135,000	-	(7,500)	127,500
M.P.L. of 2010.....	2.00-2.75%	3,170,000	-	(375,000)	2,795,000
M.P.L. of 2011.....	2.00-5.00%	53,077,000	-	(2,897,000)	50,180,000
M.P.L. of 2012.....	2.00-4.00%	-	3,933,000	-	3,933,000
General Obligation Refunding Bonds of 2012.....	1.00-4.00%	-	9,636,670	-	9,636,670
Total governmental funds.....		\$ 87,751,306	\$ 13,569,670	\$ (7,633,388)	\$ 93,687,588

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 23,952,875	\$ 2,971,660	\$ 26,924,535
2014.....	7,154,967	2,440,713	9,595,680
2015.....	6,696,547	2,234,831	8,931,378
2016.....	6,134,699	2,023,132	8,157,831
2017.....	5,892,569	1,754,840	7,647,409
2018.....	5,079,859	1,557,874	6,637,733
2019.....	4,202,369	1,392,798	5,595,167
2020.....	3,952,659	1,223,386	5,176,045
2021.....	3,510,602	1,096,017	4,606,619
2022.....	3,307,721	986,060	4,293,781
2023.....	3,232,721	881,069	4,113,790
2024.....	3,227,500	777,001	4,004,501
2025.....	2,572,500	666,550	3,239,050
2026.....	2,572,500	576,765	3,149,265
2027.....	2,442,500	487,000	2,929,500
2028.....	2,442,500	389,600	2,832,100
2029.....	2,442,500	292,200	2,734,700
2030.....	2,435,000	194,800	2,629,800
2031.....	2,435,000	97,418	2,532,418
Total.....	\$ <u>93,687,588</u>	\$ <u>22,043,714</u>	\$ <u>115,731,302</u>

Bonds and Notes Payable - Enterprise Fund (Water and Sewer)

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water Treatment Plant.....	3.25-3.75%	\$ 135,000	\$ -	\$ (30,000)	\$ 105,000
Water Treatment Plant.....	4.73%	481,000	-	(62,000)	419,000
Sewer (Pleasant, Rockwood, etc.).....	4.71%	97,000	-	(12,000)	85,000
Sewer (Pleasant, Eliot, Union, etc.).....	4.92%	315,000	-	(35,000)	280,000
Sewer (Union, St).....	4.90%	245,000	-	(30,000)	215,000
Water (Lakeshore Dr).....	4.94%	225,000	-	(25,000)	200,000
Water (Lakeshore Dr).....	5.14%	250,000	-	(25,000)	225,000
Sewer (Boden Ln & Water, Lincoln, etc.).....	5.09%	400,000	-	(40,000)	360,000
Water Meters.....	4.19%	180,000	-	(180,000)	-
Water Relining.....	4.19%	70,000	-	(70,000)	-
Water Relining.....	4.19%	140,000	-	(140,000)	-
Sewer (Lakeshore Rd).....	4.71%	220,000	-	(20,000)	200,000
Sewer (Leach Ln).....	4.73%	110,000	-	(10,000)	100,000
Water Elm Bank Refunded.....	2.96%	275,000	-	(140,000)	135,000
Water Meters.....	3.30%	105,000	-	(35,000)	70,000
Sewer (Speen St, Park Ave.....	4.03%	1,680,000	-	(105,000)	1,575,000
Water Treatment (MWPAT) Refunded.....	2.00%	4,035,063	-	(227,661)	3,807,402
Water Mains - Lining.....	3.38-5.00%	2,100,000	-	(300,000)	1,800,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	60,000	-	(10,000)	50,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	15,000	-	(15,000)	-
M.P.L. of 2010-Sewer.....	2.00-3.25%	270,000	-	(30,000)	240,000
M.P.L. of 2010-Departmental Equipment - Sewer.....	2.00-3.25%	225,000	-	(25,000)	200,000
M.P.L. of 2010-Water Mains - Lining.....	2.00-3.25%	540,000	-	(60,000)	480,000
M.P.L. of 2010-Well.....	2.00-3.25%	225,000	-	(25,000)	200,000
M.P.L. of 2010-Water Departmental Equipment.....	2.00-3.25%	450,000	-	(50,000)	400,000
Sewer (MWRA).....	0.00%	61,908	-	(15,477)	46,431
M.P.L. of 2011-Water Mains - Lining.....	2.00-5.00%	800,000	-	(55,000)	745,000
Water Departmental Equipment.....	2.00-4.00%	-	150,000	-	150,000
Building Remodeling - Public Works.....	2.00-4.00%	-	66,000	-	66,000
Well.....	2.00-4.00%	-	300,000	-	300,000
Water Departmental Equipment.....	2.00-4.00%	-	260,000	-	260,000
Building Remodeling - Sewer.....	2.00-4.00%	-	504,000	-	504,000
Sewer (MWRA).....	0.00%	-	196,845	-	196,845
General Obligation Refunding Bonds of 2012.....	1.00-4.00%	-	1,699,000	-	1,699,000
Total Water/Sewer enterprise fund.....		\$ 13,709,971	\$ 3,175,845	\$ (1,772,138)	\$ 15,113,678

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 3,386,757	\$ 514,580	\$ 3,901,337
2014.....	1,448,869	439,655	1,888,524
2015.....	1,400,284	394,771	1,795,055
2016.....	1,379,663	348,454	1,728,117
2017.....	1,382,410	291,002	1,673,412
2018.....	1,290,787	235,936	1,526,723
2019.....	888,408	184,787	1,073,195
2020.....	888,155	147,538	1,035,693
2021.....	663,902	111,754	775,656
2022.....	616,522	85,566	702,088
2023.....	491,269	59,180	550,449
2024.....	505,889	35,402	541,291
2025.....	510,763	14,393	525,156
2026.....	155,000	8,273	163,273
2027.....	105,000	2,179	107,179
Total.....	\$ <u>15,113,678</u>	\$ <u>2,873,470</u>	\$ <u>17,987,148</u>

Bonds and Notes Payable - Enterprise Fund (Golf)

<u>Project</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2012</u>
Municipal Golf Course.....	4.73%	\$ 1,625,000	\$ -	\$ (150,000)	\$ 1,475,000
Surplus Proceeds from Landfill to Golf Course.....	4.93%	320,758	-	(36,528)	284,230
Surplus Proceeds from Landfill to Golf Course.....	4.93%	84,618	-	(9,402)	75,216
General Obligation Refunding Bonds of 2012.....	1.00-4.00%	-	341,330	-	341,330
Total Golf enterprise fund.....		\$ <u>2,030,376</u>	\$ <u>341,330</u>	\$ <u>(195,930)</u>	\$ <u>2,175,776</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 560,776	\$ 97,027	\$ 657,803
2014.....	194,370	90,715	285,085
2015.....	193,790	80,367	274,157
2016.....	193,500	69,258	262,758
2017.....	192,630	57,717	250,347
2018.....	187,340	46,190	233,530
2019.....	181,830	35,015	216,845
2020.....	181,540	23,947	205,487
2021.....	145,000	14,790	159,790
2022.....	145,000	7,395	152,395
Total.....	\$ <u>2,175,776</u>	\$ <u>522,421</u>	\$ <u>2,698,197</u>

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2012, the Town's subsidy totaled approximately \$95,000. Future subsidies total approximately \$733,000. The amount of MWPAT bonds outstanding at June 30, 2012, totaled \$4,083,766.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan (payable in five equal annual installments). At June 30, 2012, the outstanding principal amount of these loans totaled \$46,431.

During fiscal year 2012, the Town issued \$17,086,845 of general obligation bonds for refunding (current), building remodeling, community/senior center construction, paving, departmental equipment and water/sewer related items.

Current Refunding - June 2012

On June 1, 2012, the Town issued \$11,677,000 in current refunding bonds to refund \$18,585,000 of previously issued and outstanding bonds with an average interest rate of approximately 4.9%. The average interest rate of the current refunding bonds is approximately 3.3%.

The net proceeds of approximately \$19,015,000 (after payment of approximately \$109,000 in bond issuance costs, premium of approximately \$806,000 and an equity contribution from the MSBA of approximately \$6,641,000) were used to retire the outstanding bonds and the related accrued interest.

As a result of this refunding, the Town will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$9,125,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$2,253,000.

Subsequent Event

On August 1, 2012, the Town disbursed the funds required to retire the outstanding bonds related to the current refunding discussed above.

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

Purpose	Amount
High school construction.....	\$ 47,140,000
Force main bradford/pamela - sewer.....	1,650,000
Community senior center.....	1,000,000
Modular classrooms.....	600,000
Sewer I&I.....	597,920
Parking garage demolition and architecture plans.....	540,000
Replace ground water wells.....	300,000
Springvale plant modification - water.....	200,000
Charles river dam renovations.....	87,000
Security cameras.....	85,000
Fire station renovations.....	600
Total.....	<u>\$ 52,200,520</u>

NOTE 10 - LANDFILL POSTCLOSURE CARE

State and federal laws and regulations required the Town to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1988 and, accordingly, was subsequently capped and funded via long-term debt. The Town has reflected \$510,645 as the estimated landfill post-closure care liability at June 30, 2012. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description - The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

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

Active employees.....	984
Retired employees and spouses....	<u>813</u>
Total.....	<u>1,797</u>

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 50%, respectively. The Plan members and Town each contribute 50% towards a \$5,000 term life insurance premium. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

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

	<u>Amount</u>
Annual required contribution.....	\$ 11,688,669
Interest on net OPEB obligation.....	947,020
Adjustment to annual required contribution.....	<u>(1,085,138)</u>
Annual OPEB cost.....	11,550,551
Contributions made.....	<u>(3,471,543)</u>
Increase in net OPEB obligation.....	8,079,008
Net OPEB obligation at beginning of year.....	<u>23,675,492</u>
Net OPEB obligation at end of year.....	<u>\$ 31,754,500</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010.....	\$ 11,495,066	29.8%	\$ 15,985,607
June 30, 2011.....	11,022,241	30.2%	23,675,492
June 30, 2012.....	11,550,551	30.1%	31,754,500

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
07/01/10	\$ -	\$ 119,187,237	\$ 119,187,237	-	\$ 60,836,610	196%

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

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

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

Valuation date:	July 1, 2010
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years at July 1, 2010 (open)
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	9.00% beginning in 2010 to an ultimate level of 5.00% in 2014
Projected salary increases:	2.50% annually

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

Governmental Activities:	
General government.....	\$ 699,002
Public safety.....	2,659,300
Education.....	7,074,180
Public works.....	382,576
Health and human services.....	65,496
Culture and recreation.....	117,183
Library.....	283,906
Total AOPEBC - governmental activities....	<u>11,281,643</u>
Business-Type Activities:	
Water and sewer.....	237,826
Golf.....	31,082
Total AOPEBC - business-type activities....	<u>268,908</u>
Total AOPEBC.....	<u>\$ 11,550,551</u>

NOTE 12 - FUND BALANCES

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

	General	High School Project Fund	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	-	\$ 14,072	\$ 14,072
Restricted:					
Current refunding.....	-	-	16,942,273	-	16,942,273
Debt service.....	1,027,344	-	-	1,467,270	2,494,614
School construction.....	-	2,854,043	-	-	2,854,043
Senior center construction.....	-	-	-	1,830,232	1,830,232
School lunch.....	-	-	-	223,785	223,785
Bus transportation.....	-	-	-	232,698	232,698
Capital.....	-	-	-	4,416,501	4,416,501
Medicaid.....	-	-	-	354,354	354,354
Cable fees.....	-	-	-	329,321	329,321
Circuit breaker.....	-	-	-	866,976	866,976
Conservation commission.....	-	-	-	4,995,207	4,995,207
Recreation revolving.....	-	-	-	691,170	691,170
General government.....	-	-	-	1,565,423	1,565,423
Public safety.....	-	-	-	336,379	336,379
Education.....	-	-	-	1,307,116	1,307,116
Public works.....	-	-	-	501,231	501,231
Health and human services.....	-	-	-	403,725	403,725
Culture and recreation.....	-	-	-	154,150	154,150
Library.....	-	-	-	9,659	9,659
Sub-total - Restricted.....	<u>1,027,344</u>	<u>2,854,043</u>	<u>16,942,273</u>	<u>19,685,197</u>	<u>40,508,857</u>
Committed:					
Subsequent year's expenditures.....	2,979,340	-	-	-	2,979,340
Capital stabilization.....	1,478,084	-	-	-	1,478,084
Continuing appropriations.....	<u>3,103,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,103,964</u>
Sub-total - Committed.....	<u>7,561,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,561,388</u>
Assigned:					
Encumbrances.....	<u>1,575,434</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,575,434</u>
Unassigned.....	<u>14,510,553</u>	<u>-</u>	<u>-</u>	<u>(469,616)</u>	<u>14,040,937</u>
	<u>\$ 24,674,719</u>	<u>\$ 2,854,043</u>	<u>\$ 16,942,273</u>	<u>\$ 19,229,653</u>	<u>\$ 63,700,688</u>

NOTE 13 - STABILIZATION FUNDS

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

The balances of the general stabilization fund, capital stabilization fund and operational stabilization fund at June 30, 2012 are \$4,280,594, 1,478,084 and \$856,478, respectively. The capital stabilization fund balance is reported in the general fund as committed and the remaining stabilization funds are reported as unassigned fund balance in the general fund.

NOTE 14 - RISK FINANCING

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

The Town provides health insurance through its participation in the West Suburban Health Group (Group), a non-profit trust comprised of 11 towns, one school district and two educational collaboratives. The Town recognizes the cost of providing health insurance by recording its share (depending on the plan, contribution rates range between 50% and 90%) of insurance premiums paid to the Group in the general fund in the fiscal year paid. The purpose of the Group is to pay medical claims of its members' employees and their covered dependents.

The Town participates in a premium-based workers' compensation plan. In prior years, the Town was self-insured for workers' compensation and is liable for the payment of certain claims from those periods. The claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type. The estimated liability at June 30, 2012, totaled \$106,522.

NOTE 15 - OPERATING LEASES

Lessee

The Town is committed under several operating leases for a parking lot, golf course land and a modular building used as a clubhouse and administrative building at the golf course. During fiscal year 2012, the Town paid approximately \$126,000 related to these leases, which are accounted for in the general fund and golf course enterprise fund. Future minimum lease payments are as follows:

Governmental Activities

<u>Fiscal Year</u>	<u>Payment</u>
2013.....	\$ 51,000
2014.....	52,020

Business-Type Activities

<u>Fiscal Year</u>	<u>Payment</u>
2013.....	\$ 62,997
2014.....	64,887
2015.....	66,834
2016.....	68,839
2017.....	70,904

NOTE 16 – PENSION PLAN

Plan Description – The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Natick Contributory Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Commonwealth’s Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Natick Contributory Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth’s Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 13 East Central Street, Natick, Massachusetts 01760.

Plan Membership – At December 31, 2011, the System’s membership consists of the following:

Active members.....	570
Inactive members.....	91
Retirees and beneficiaries currently receiving benefits...	<u>372</u>
Total.....	<u><u>1,033</u></u>

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

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

Annual Pension Cost – The Town’s contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$5,826,520, \$5,575,618, and \$5,335,519, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 98.5% of the total. At June 30, 2012, the Town did not have a net pension obligation.

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 94,697,600	\$ 147,904,433	\$ 53,206,833	64.0%	\$ 27,627,175	192.6%

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

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

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	4.00% increasing, with an 8.00% cap
Remaining amortization period:	19 years from July 1, 2011 (open)
Asset valuation method:	The difference between the total return and the expected return on a market value basis and is recognized over a ten-year period for the year ended December 31, 2008 and over a five-year period for all other years.

Actuarial assumptions:

Investment rate of return:	8.00%
Projected salary increases:	Based on years of service, ranging from 7.00% decreasing to 4.75% after 9 years of service for Group 1 employees, ranging from 7.00% decreasing to 5.00% after 7 years for service for Group 2 employees and ranging from 8.00% decreasing to 5.25% after 8 years for Group 4 employees
Cost of living adjustments:	3.00% of first \$12,000 of retirement income

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

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund...	\$ 28,421,504	Active members' contribution balance
Annuity Reserve Fund..	7,852,331	Retired members' contribution account
Pension Reserve Fund...	39,530,008	Amounts appropriated to fund future retirement
Pension Fund.....	<u>3,489,624</u>	Remaining net assets
Total.....	<u>\$ 79,293,467</u>	

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2012 totaled approximately \$75,000.

NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$10,314,000 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 18 - COMMITMENTS

The Town is currently in the process of constructing the Natick High School and Community/Senior Center. At June 30, 2012 approximately \$67,328,000 and \$7,644,000, respectively, had been spent on the projects and approximately \$5,271,000 and \$1,403,000, respectively, is required to complete these projects.

The Town has also entered into, or is planning to enter into, contracts totaling approximately \$4,061,000 for water and sewer projects, modular classrooms, roadway projects and the purchase of departmental equipment.

Other significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$4,679,398 at June 30, 2012.

NOTE 19 - CONTINGENCIES

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

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

NOTE 20 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. The implementation of this Statement will require a change to the title of the Statement of Fiduciary Net Assets to the Statement of Fiduciary Net Position, as well as expanded note disclosures and required supplementary information.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

These pronouncements will be implemented by their respective implementation dates.

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Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 82,904,969	\$ 2,421,757	\$ 85,326,726
Motor vehicle and other excise taxes.....	-	3,749,760	-	3,749,760
Hotel/motel tax.....	-	1,300,000	-	1,300,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	26,429	-	26,429
Trash disposal.....	-	1,007,283	-	1,007,283
Intergovernmental.....	-	11,587,173	-	11,587,173
Special assessments.....	-	20,000	-	20,000
Penalties and interest on taxes.....	-	463,020	-	463,020
Licenses and permits.....	-	1,263,643	-	1,263,643
Fines and forfeitures.....	-	160,000	-	160,000
Departmental and other.....	-	1,958,554	-	1,958,554
Investment income.....	-	100,000	-	100,000
TOTAL REVENUES.....	-	104,540,831	2,421,757	106,962,588
EXPENDITURES				
Current:				
General government.....	753,679	5,369,312	118,117	6,241,108
Public safety.....	229,464	13,298,005	283,932	13,811,401
Education.....	232,913	48,133,140	251,281	48,617,334
Public works.....	840,554	8,785,410	279,076	9,905,040
Health and human services.....	866	1,125,751	123,343	1,249,960
Culture and recreation.....	954	622,772	50,520	674,246
Library.....	99	2,081,645	3,260	2,085,004
Pension benefits.....	-	5,717,032	-	5,717,032
Employee benefits.....	37,946	15,269,212	(422,722)	14,884,436
Property and liability insurance.....	15,075	520,958	-	536,033
State and county charges.....	-	1,360,929	-	1,360,929
Debt service:				
Principal.....	-	5,638,585	1,953,684	7,592,269
Interest.....	-	3,103,770	168,160	3,271,930
TOTAL EXPENDITURES.....	2,111,550	111,026,521	2,808,651	115,946,722
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,111,550)	(6,485,690)	(386,894)	(8,984,134)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	4,069,489	689,340	4,758,829
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(1,537,374)	(1,565,203)	(3,102,577)
TOTAL OTHER FINANCING SOURCES (USES).....	-	2,532,115	(875,863)	1,656,252
NET CHANGE IN FUND BALANCE.....	(2,111,550)	(3,953,575)	(1,262,757)	(7,327,882)
FUND BALANCE AT BEGINNING OF YEAR.....	15,243,736	15,243,736	15,243,736	15,243,736
FUND BALANCE AT END OF YEAR.....	\$ 13,132,186	\$ 11,290,161	\$ 13,980,979	\$ 7,915,854

See notes to basic financial statements.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 85,587,087	\$ -	\$ 85,587,087	\$ 260,361
4,086,336	-	4,086,336	336,576
1,297,423	-	1,297,423	(2,577)
517,430	-	517,430	517,430
47,583	-	47,583	21,154
847,990	-	847,990	(159,293)
19,809,082	-	19,809,082	8,221,909
4,671	-	4,671	(15,329)
424,185	-	424,185	(38,835)
2,274,499	-	2,274,499	1,010,856
222,511	-	222,511	62,511
2,498,706	-	2,498,706	540,152
155,369	-	155,369	55,369
<u>117,772,872</u>	<u>-</u>	<u>117,772,872</u>	<u>10,810,284</u>
4,352,501	1,504,414	5,856,915	384,193
13,108,643	335,193	13,443,836	367,565
48,066,070	536,283	48,602,353	14,981
7,101,082	2,101,866	9,202,948	702,092
1,177,181	20,707	1,197,888	52,072
649,226	17,703	666,929	7,317
1,980,929	103,824	2,084,753	251
5,701,675	-	5,701,675	15,357
14,135,312	32,643	14,167,955	716,481
445,100	26,765	471,865	64,168
1,242,987	-	1,242,987	117,942
7,625,386	-	7,625,386	(33,117)
3,295,101	-	3,295,101	(23,171)
<u>108,881,193</u>	<u>4,679,398</u>	<u>113,560,591</u>	<u>2,386,131</u>
<u>8,891,679</u>	<u>(4,679,398)</u>	<u>4,212,281</u>	<u>13,196,415</u>
4,758,829	-	4,758,829	-
328,709	-	328,709	328,709
(3,113,388)	-	(3,113,388)	(10,811)
<u>1,974,150</u>	<u>-</u>	<u>1,974,150</u>	<u>317,898</u>
10,865,829	(4,679,398)	6,186,431	13,514,313
<u>15,243,736</u>	<u>15,243,736</u>	<u>15,243,736</u>	<u>-</u>
<u>\$ 26,109,565</u>	<u>\$ 10,564,338</u>	<u>\$ 21,430,167</u>	<u>\$ 13,514,313</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 94,697,600	\$ 147,904,433	\$ 53,206,833	64.0%	\$ 27,627,175	192.6%
01/01/08	90,885,080	131,268,314	40,383,234	69.2%	25,775,476	156.7%
01/01/06	79,234,306	118,903,286	39,668,980	66.6%	24,814,583	159.9%
01/01/04	70,246,877	109,024,236	38,777,359	64.4%	22,170,379	174.9%
01/01/02	68,985,592	100,572,515	31,586,923	68.6%	22,056,144	143.2%
01/01/00	64,669,153	89,688,360	25,019,207	72.1%	18,611,143	134.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2006	\$ 5,059,655	100
2007	5,541,638	100
2008	5,334,374	100
2009	5,418,151	100
2010	5,661,968	100
2011	5,916,756	100

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

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2007	\$ 4,983,669	100	98.5%
2008	5,460,965	100	98.5%
2009	5,255,414	100	98.5%
2010	5,335,519	100	98.5%
2011	5,575,618	100	98.5%
2012	5,826,520	100	98.5%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

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

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/10	\$ -	\$ 119,187,237	\$ 119,187,237	-	\$ 60,836,610	196%
07/01/08	-	111,743,502	111,743,502	-	59,832,150	187%

The significant change to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress is the increase in the trend on medical and prescription drug costs.

NOTE A - BUDGETARY - GAAP RECONCILIATION

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

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 117,772,872	\$ 113,560,591	\$ 1,974,150
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	380,879	-	-
Net change in recording tax refunds payable.....	783,867	-	-
To record MWPAT debt service subsidy.....	16,551	16,551	-
To record MTRS on-behalf payments.....	10,313,920	10,313,920	-
Net change in recording other expenditures.....	-	75,506	-
To record encumbrances and continuing appropriations.....	-	(4,679,398)	-
Total on GAAP basis of accounting.....	<u>129,268,089</u>	<u>119,287,170</u>	<u>1,974,150</u>
<u>Reclassifications</u>			
To reclassify the stabilization fund to the general fund.....	9,138	-	-
To reclassify the capital stabilization fund to the general fund.....	-	-	1,170,171
To reclassify the operating stabilization fund to the general fund.....	-	-	856,478
To reclassify MSBA lump-sum payment to the debt service fund.....	<u>(6,640,698)</u>	<u>-</u>	<u>-</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 122,636,529</u>	<u>\$ 119,287,170</u>	<u>\$ 4,000,799</u>