

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2012

TOWN OF PHILLIPSTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Phillipston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2012, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the funding and contribution progress for pension benefits and the budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

Town of Phillipston
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We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
November 21, 2012

Management's Discussion and Analysis

As the management of the Town of Phillipston, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$4.9 million (*total net assets*). Of this amount, approximately \$2.1 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by over \$0.5 million in fiscal year 2012. This increase was the result of revenues increasing nearly 8% year-over-year while expenditures increased approximately 4% year-over-year. The Town continues to manage its costs well during these volatile economic times.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$0.8 million, which is a decrease of nearly \$0.2 million from the prior year. This decrease was due primarily to increased spending for capital projects in 2012. Of the ending fund balance approximately \$0.8 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$0.8 million, or approximately 26% percent of total general fund expenditures.
- The Town's total bonded debt and long-term notes decreased by \$25,645 at June 30, 2012 to \$715,269 from its prior year balance. This decrease was due to the normal scheduled principal repayments of \$25,645 that were made against the Town's outstanding general obligations and notes payable in fiscal year 2012.
- In fiscal year 2012, the Town increased its short-term borrowings liabilities by \$454,128 to \$787,128 at June 30, 2012.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, community development, health and human services, culture and recreation, fringe benefits, and debt service. The Town does not have any business-type activities to 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 of the Town can be divided into a single category – governmental funds.

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

- Nonspendable—amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

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

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

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

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

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

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

Government-Wide Financial Analysis

The condensed statement of net assets is as follows:

Governmental Activities			
	June 30, 2012	June 30, 2011	
<u>Assets</u>			
Current and other assets	\$ 2,216,006	\$ 1,842,777	
Capital assets, net	<u>4,322,708</u>	<u>3,709,520</u>	
Total assets	<u>6,538,714</u>	<u>5,552,297</u>	
<u>Liabilities</u>			
Long term liabilities	689,624	715,269	
Other liabilities	<u>132,247</u>	<u>75,120</u>	
Total liabilities	<u>821,871</u>	<u>790,389</u>	
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,946,190	2,968,606	
Restricted	540,244	137,996	
Unrestricted	<u>1,443,281</u>	<u>1,322,306</u>	
Net Assets	<u>\$ 4,929,715</u>	<u>\$ 4,428,908</u>	

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$4.9 million (*total net assets*). This represents an increase of approximately \$0.5 million from the prior year. This increase was the result of revenues increasing nearly 8% year-over-year while expenditures increased approximately 4% year-over-year. The Town continues to manage its costs well during these volatile economic times.

The largest portion (approximately 60%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts

expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (approximately 11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 29%), may be used to meet the government's ongoing obligations to citizens and creditors.

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

	Governmental Activities	
	2012	2011
<u>Revenues</u>		
Program revenues:		
Charges for services	\$ 247,497	\$ 147,719
Operating grants and contributions	165,012	80,975
Capital grants and contributions	263,814	172,021
General revenues:		
Property taxes	2,773,763	2,746,902
Intergovernmental	200,715	198,562
Other	217,430	247,904
Total revenues	<u>3,868,231</u>	<u>3,594,083</u>
<u>Expenses</u>		
General government	473,082	422,058
Public safety	723,854	596,733
Education	1,664,655	1,642,996
Public works	330,147	402,034
Health and human services	97,407	96,748
Culture and recreation	45,732	35,432
Debt service	32,547	32,615
Total expenses	<u>3,367,424</u>	<u>3,228,616</u>
Increase in net assets	500,807	365,467
Net assets – beginning of the year	4,428,908	4,063,441
Net assets – end of the year	<u>\$ 4,929,715</u>	<u>\$ 4,428,908</u>

Governmental Activities. During 2012, Town property taxes made up approximately 72% of total revenues, down from 76% in the prior year. This was due to a downturn in collections. No other revenues sources were greater than 10% of total revenues in fiscal years 2012 or 2011.

The Town's largest expense category is education, which totaled approximately 49% and 51% of total fiscal year 2012 and 2011 expenses, respectively. Amounts were fairly consistent, as the Town's school

population approximated the prior year. In addition, general government, public safety and public works represented approximately 14%, 21% and 10% of fiscal year 2012 total expenses, respectively, and 13%, 18% and 12% of fiscal year 2011 expenses, respectively. General government was consistent with the prior year, public safety increased due to the reclassification of police details into non major funds and public works is less due to a less severe winter than the prior year. No other expense categories were greater than 10% of total 2012 or 2011 expenses.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$0.8 million, which was nearly \$0.2 million lower than the prior year. This decrease was due primarily to increased spending for capital projects in 2012.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was nearly \$0.8 million, while total fund balance was nearly \$1.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 26% of total general fund expenditures, while total fund balance represents approximately 31% of that same amount.

The Town maintains a Community Preservation Fund. This fund is restricted for historical preservation and conservation of open space. At June 30, 2012, the Community Preservation Fund balance had nearly \$0.3 million.

The remainder of the governmental funds are either (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$38,000; or (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$203,000; or (3) unassigned in the amount of approximately \$(661,000). The negative balance in the unassigned category is entirely due to the negative fund balance the Town is reporting in its capital projects funds, which is currently funded by short-term borrowings. The Town expects to fund this deficit in future years with permanent financing.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2012, the Town's investment in capital assets totaled \$4,322,708, net of accumulated depreciation. Net fixed assets increased \$613,188 in 2012 as capital additions of \$805,307 exceeded 2012 depreciation expense of \$192,119.

Additional information on the Town capital assets can be found in Note III.D to the financial statements.

Debt. At the end of the current fiscal year, the Town had total debt outstanding of nearly \$1,502,397, which consists of long-term debt in the form of general obligation bonds of \$715,269 and short-term borrowings in the form of BANs and a SAN of \$787,128. The Town's long-term debt decreased by \$25,645, which was the normal, scheduled principal payment for 2012. The Town's net short-term borrowings increased by \$454,128 from the prior year. This increase was due primarily to increased capital spending in 2012, which the Town financed through short-term borrowings and intends to refinance with permanent borrowings in the future.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$9.4 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in Notes III.E and F to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- The Bureau of Labor Statistics of the U.S. Department of Labor reported a 7.2% unemployment rate for Worcester County as of September 30, 2012, which represents a significant improvement from a recent high of 10.2% in December 2009. While there are signs of economic improvement in the labor markets, there continues to be great volatility. When the economy rebounds, the Town expects to participate in the rebound and ultimately experience an improvement in unemployment. However, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- Town's real estate tax base is made up predominantly of residential taxes, which in 2012 are approximately 93% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy.
- The Town's housing market has stabilized from the recent downward trend. However, housing prices are still well below their 2005 peaks. The Town anticipates that its housing market will appreciate if the economy rebounds. However, the extent, timing or certainty of any material housing rebound cannot be reasonably estimated at this time.
- Inflationary trends in the region are consistent with state and national indices.

These factors, amongst others, were considered in preparing the Town's budget for the 2013 fiscal year. Town expects to set its tax rate for 2013 in December 2012.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Selectmen, Town Hall, 50 The Common, Phillipston, Massachusetts 01331.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,355,726
Restricted cash and cash equivalents	88,898
Receivables, net of allowance for uncollectible accounts:	
Real estate and personal property taxes	465,769
Motor vehicle excise	54,169
Ambulance	17,847
Septic loan program	20,316
Due from Commonwealth	213,281
Capital assets not being depreciated	1,308,200
Capital assets, net of accumulated depreciation	3,014,508
Total Assets	6,538,714
Liabilities	
Warrants and accounts payable	100,852
Other liabilities	5,750
Bond anticipation notes payable	787,128
Noncurrent liabilities:	
Due within one year	25,645
Due in more than one year	689,624
Total Liabilities	1,608,999
Net Assets	
Invested in capital assets, net of related debt	2,946,190
Restricted:	
Community preservation funds	298,630
Other purposes	241,614
Unrestricted	1,443,281
Total Net Assets	\$ 4,929,715

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary government:						
Governmental activities:						
General government	\$ 473,082	\$ 77,473	\$ 55,734	\$ -	\$ (339,875)	
Public safety	723,854	126,104	6,931	-	(590,819)	
Education	1,664,655	-	19,026	24,334	(1,621,295)	
Public works	330,147	39,039	-	239,480	(51,628)	
Health and human services	97,407	4,486	23,908	-	(69,013)	
Culture and recreation	45,732	395	59,413	-	14,076	
Debt service	32,547	-	-	-	(32,547)	
Total Primary Government	<u>\$ 3,367,424</u>	<u>\$ 247,497</u>	<u>\$ 165,012</u>	<u>\$ 263,814</u>		<u>(2,691,101)</u>
<u>General Revenues:</u>						
Real and personal property taxes					2,773,763	
Intergovernmental					200,715	
Motor vehicle and other excise					190,381	
Penalties and interest on taxes					23,932	
Investment income					<u>3,117</u>	
Total general revenues					<u>3,191,908</u>	
Change in Net Assets					500,807	
<u>Net Assets:</u>						
Beginning of year					<u>4,428,908</u>	
End of year					<u><u>\$ 4,929,715</u></u>	

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 984,472	\$ 301,742	\$ 69,512	\$ 1,355,726
Restricted cash and cash equivalents	-	-	88,898	88,898
Receivables, net of allowance:				
Real estate and personal property taxes	346,120	2,735	-	348,855
Tax liens	116,914	-	-	116,914
Departmental and other	54,169	-	38,163	92,332
Due from Commonwealth	-	-	213,281	213,281
Total Assets	\$ 1,501,675	\$ 304,477	\$ 409,854	\$ 2,216,006
Liabilities and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 93,542	\$ 3,112	\$ 4,198	\$ 100,852
Other liabilities	5,750	-	-	5,750
Short-term notes payable	-	-	787,128	787,128
Deferred revenues	452,123	2,735	38,163	493,021
Total Liabilities	551,415	5,847	829,489	1,386,751
Fund Balances:				
Nonspendable:				
Perpetual permanent funds	-	-	38,449	38,449
Restricted:				
Community preservation	-	298,630	-	298,630
General government	-	-	78,648	78,648
Public safety	-	-	23,032	23,032
Public works	-	-	47,189	47,189
Health and human services	-	-	53,359	53,359
Culture and recreation	-	-	937	937
Unrestricted:				
Committed	119,973	-	-	119,973
Assigned	37,113	-	-	37,113
Unassigned	793,174	-	(661,249)	131,925
Total Fund Balances	950,260	298,630	(419,635)	829,255
Total Liabilities and Fund Balances	\$ 1,501,675	\$ 304,477	\$ 409,854	\$ 2,216,006

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances	\$ 829,255
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,322,708
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Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	493,021
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
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Bonds and notes payable	<u>(715,269)</u>
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Net Assets of Governmental Activities	<u>\$ 4,929,715</u>
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See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 2,686,753	\$ 38,056	\$ -	\$ 2,724,809
Intergovernmental	261,576	59,413	304,142	625,131
Motor vehicle and other excises	181,418	-	-	181,418
Departmental and other revenue	76,574	-	165,343	241,917
License and permits	8,448	-	-	8,448
Penalties and interest on taxes	23,932	-	-	23,932
Fines and forfeitures	10,770	-	-	10,770
Investment income	2,914	-	203	3,117
Contributions and donations	-	-	4,410	4,410
Total Revenues	3,252,385	97,469	474,098	3,823,952
Expenditures:				
Current:				
General government	390,562	-	254,545	645,107
Public safety	502,891	-	420,516	923,407
Education	1,602,384	-	46,937	1,649,321
Public works	211,632	-	220,439	432,071
Health and human services	62,351	-	15,321	77,672
Culture and recreation	36,452	28,881	107	65,440
Fringe and Pension Benefits	151,477	-	-	151,477
Debt service:				
Principal maturities	25,645	-	-	25,645
Interest expense	32,547	-	-	32,547
State and county tax assessments	3,570	-	-	3,570
Total Expenditures	3,019,511	28,881	957,865	4,006,257
Other Financing Sources (Uses):				
Transfers in	7,697	-	75,000	82,697
Transfers out	(75,000)	-	(7,697)	(82,697)
Total Other Financing Sources (Uses)	(67,303)	-	67,303	-
Net Change in Fund Balances	165,571	68,588	(416,464)	(182,305)
FUND BALANCES – Beginning of year	784,689	230,042	(3,171)	1,011,560
FUND BALANCES – End of year	\$ 950,260	\$ 298,630	\$ (419,635)	\$ 829,255

See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

Net Change in Fund Balances - Total Governmental Fund Balances	\$ (182,305)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. Capital outlays totaled \$805,308 in 2012. Depreciation expense totaled \$192,120 in 2012. The net amount is reflected here as a reconciling item.

	613,188
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Principal repayments on debt totaled \$25,645 in 2012; there were no long-term debt borrowings in 2012.

	25,645
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Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference based on the two methodologies.

	44,279
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Change in Net Assets of Governmental Activities	\$ 500,807
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See accompanying notes to basic financial statements.

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a political subdivision of the Commonwealth of Massachusetts, located in Worcester County. The Town was incorporated in 1814 and is governed by Town Meeting. The operations of the Town are managed by an elected three-member Board of Selectmen. The Town provides general governmental services to its residents, including public safety, education through a regional district, public works and social services.

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported on these statements. Major individual government funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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

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

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

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

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

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

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

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

The government reports the following major governmental funds:

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

Community Preservation Fund – is used to accumulate funds for historical preservation and conserving open space.

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

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *capital projects funds* are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

It is the Town's policy to use restricted resources first then unrestricted resources, as they are needed, when both restricted and unrestricted resources are available for use.

D. Assets, Liabilities, and Net Assets or Equity

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

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

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

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

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

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, sidewalks and similar items), are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

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

Structures and improvements	20 to 40 years
Infrastructure	20 to 40 years
Equipment, furniture, fixtures and vehicles	10 to 20 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Interfund Transfers – During the course of the Town’s operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the Town’s policy to permit full time employees to utilize vacation and sick-pay benefits. Employees must either use or sell back unused time within the fiscal year. Accordingly no amounts have been accrued as compensated absences as of the fiscal year end.

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

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

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

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

Nonexpendable permanent funds represent the endowment portion of donor restricted trusts that support governmental programs.

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

Capital projects represents assets that are restricted, committed or assigned to expenditures for capital outlays.

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

Fund Equity – The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the governmental fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact. The Town's non-spendable fund balance reported in the nonmajor governmental funds consists of the corpus of endowments for various Town purposes.

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

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

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

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

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

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

The following table reflects the Town's fund equity categorizations in accordance with GASB 54:

	General	Community Preservation	Nonmajor Governmental Funds	Total
Non-Spendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 38,449	\$ 38,449
Committed:				
General government	119,973	-	-	119,973
Restricted:				
General government	-	-	78,648	78,648
Public safety	-	-	23,032	23,032
Public works	-	-	47,189	47,189
Health and human services	-	-	53,359	53,359
Culture and recreation	-	-	937	937
Community preservation	-	298,630	-	298,630
Assigned:				
General government	37,113	-	-	37,113
Unassigned	<u>793,174</u>	<u>-</u>	<u>(661,249)</u>	<u>131,925</u>
Totals	\$ 950,260	\$ 298,630	\$ (419,635)	\$ 829,255

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

At June 30, 2012, encumbrances totaled \$37,113 and were reported as assigned in the general fund. Warrant articles approved at Town Meeting totaled \$119,973 at June 30, 2012 and were included in the committed fund balance.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2012, expenditures exceeded appropriations for certain special revenue accounts. The over-expenditures are expected to be funded through future intergovernmental revenue receipts.

The Town's capital projects fund has a legal deficit fund balance of \$661,249 at June 30, 2012. This deficit was covered by short-term borrowings of \$699,928 at June 30, 2012. The Town anticipates funding this deficit through future transfers from taxation.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

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

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust, which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. However, the Town maintains private collateralization agreements, in addition to federal depository insurance, to assist it in mitigating this risk. At June 30, 2012, \$44,067 in bank deposits was not insured or collateralized by third parties

Interest Rate Risk – The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

Concentration of Credit Risk – The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total investments.

Investment Composition – At June 30, 2012, the Town had cash deposits of \$795,619, money market holdings of \$202,694 and monies invested with the Pool of \$446,311. The Town's money market holdings and its investments with the Pool are classified as cash equivalents in these financial statements due to their short-term and liquid nature.

B. Receivables

Receivables reported in the government-wide financial statements for governmental activities as of June 30, 2012, net of applicable allowances for uncollectible accounts, include:

Property taxes	\$ 348,855
Tax liens and foreclosures	116,914
Excise taxes	54,169
Ambulance	17,847
Septic loans	20,316
Due from Commonwealth	<u>213,281</u>
Total	<u>\$ 771,382</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 table identifies the components of deferred revenues in the governmental funds financial statements:

	General Fund	Community Preservation	Nonmajor Funds	Total
Property taxes	\$ 281,040	\$ 2,735	\$ —	\$ 283,775
Tax liens and foreclosures	116,914	—	—	116,914
Excise taxes	54,169	—	—	54,169
Ambulance	—	—	17,847	17,847
Septic loans	—	—	20,316	20,316
Total	<u>\$ 452,123</u>	<u>\$ 2,735</u>	<u>\$ 38,163</u>	<u>\$ 493,021</u>

C. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In		
	General Fund	Nonmajor	
		Funds	Total
General Fund	\$ -	\$ 75,000	\$ 75,000 (1)
Nonmajor Governmental Funds	<u>7,697</u>	<u>-</u>	<u>7,697</u> (2)
	<u><u>\$ 7,697</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$ 82,697</u></u>

(1) Transfers to nonmajor funds to paydown maturing BAN.

(2) Transfers from general fund to supplement debt service related to Title V loans.

D. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 1,128,200	\$ 180,000	\$ -	\$ 1,308,200
Capital assets being depreciated:				
Buildings and improvements	4,376,212	72,366	-	4,448,578
Infrastructure	3,869,588	218,575	-	4,088,163
Machinery and equipment	597,088	371,366	-	968,454
Vehicles	1,432,330	-	(37,000)	1,395,330
Total capital assets being depreciated	10,275,218	662,307	(37,000)	10,900,525
Less accumulated depreciation for:				
Buildings and improvements	(2,523,671)	(77,525)	-	(2,601,196)
Infrastructure	(3,503,324)	(9,806)	-	(3,513,130)
Machinery and equipment	(512,725)	(40,143)	-	(552,868)
Vehicles	(1,154,178)	(64,645)	-	(1,218,823)
Total accumulated depreciation	(7,693,898)	(192,119)	-	(7,886,017)
Total capital assets being depreciated, net	2,581,320	470,188	(37,000)	3,014,508
Governmental activities capital assets, net	\$ 3,709,520	\$ 650,188	\$ (37,000)	\$ 4,322,708

For the fiscal year ended June 30, 2012, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 2,710
Public safety	97,329
Education	23,377
Public works	68,703
Total	<u>\$ 192,119</u>

E. Temporary Debt

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

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

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary debt are accounted for in the general fund. Temporary notes outstanding at June 30, 2012 are payable as follows:

Type	Balance June 30, 2011	Additions	Retirements	Rollovers	Balance June 30, 2012
BAN - 1.1% maturing October 9, 2011	\$ 333,000	\$ -	\$ (96,800)	\$ (236,200)	\$ -
BAN - 0.9% maturing October 12, 2012	-	-	-	236,200	236,200
BAN - 0.85% maturing December 5, 2012	-	313,400	-	-	313,400
BAN - 0.55% maturing December 28, 2012	-	122,328	-	-	122,328
SAN - 0.55% maturing December 28, 2012	-	115,200	-	-	115,200
	<u>\$ 333,000</u>	<u>\$ 550,928</u>	<u>\$ (96,800)</u>	<u>\$ -</u>	<u>\$ 787,128</u>

Short-term debt issued and outstanding in non-major governmental funds were used for the following purposes:

BAN – public safety (fire) equipment acquisition	\$ 313,400
BANs – land acquisition	213,800
SAN – grant from Commonwealth	115,200
BAN – public safety (ambulance) equipment acquisition	87,200
BAN – education building improvements	<u>57,528</u>
	<u><u>\$ 787,128</u></u>

F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. The Town did not issue any new general obligation bonds in fiscal year 2012.

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

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
General obligation bonds and notes payable	\$ 740,914	\$ -	\$ (25,645)	\$ 715,269	\$ 25,645
Total Long-Term Obligations	<u>\$ 740,914</u>	<u>\$ -</u>	<u>\$ (25,645)</u>	<u>\$ 715,269</u>	<u>\$ 25,645</u>

Bond and Note Indebtedness – General obligation bonds currently outstanding are as follows:

Description of Issue	Maturity Date	Interest Rate	Outstanding July 1, 2011	Additions	Retirements	Outstanding June 30, 2012
<u><i>Bonded Debt (all outside the debt limit):</i></u>						
MWPAT (Series 6: 97-1186) - Title V General Obligation Bond	8/1/2020 2/25/1948	0.00% 4.13%	\$ 76,812 <u>664,102</u>	\$ - - -	\$ 7,696 17,949	\$ 69,116 646,153
Total bonded debt			\$ 740,914	\$ -	\$ 25,645	\$ 715,269

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

Year Ending June 30,	Principal			Interest		
	Balance	Subsidy	Net Amount	Balance	Subsidy	Net Amount
2013	\$ 25,645	\$ -	\$ 25,645	\$ 30,244	\$ (3,590)	\$ 26,654
2014	25,645	-	25,645	29,094	(3,181)	25,913
2015	25,645	-	25,645	27,921	(2,748)	25,173
2016	25,645	-	25,645	26,749	(2,316)	24,433
2017	25,645	-	25,645	25,575	(1,883)	23,692
2018 - 2022	120,381	-	120,381	110,418	(3,063)	107,355
2023 - 2027	89,745	-	89,745	88,845	-	88,845
2028 - 2032	89,745	-	89,745	70,335	-	70,335
2033 - 2037	89,745	-	89,745	51,825	-	51,825
2038 - 2042	89,745	-	89,745	33,315	-	33,315
2043 - 2047	89,745	-	89,745	14,807	-	14,807
2048	17,938	-	17,938	740	-	740
Total	<u>\$ 715,269</u>	<u>\$ -</u>	<u>\$ 715,269</u>	<u>\$ 509,868</u>	<u>\$ (16,781)</u>	<u>\$ 493,087</u>

MWPAT Loan Subsidies – The Town has entered into a loan agreement with the Massachusetts Water Pollution Abatement Trust (“MWPAT”). It is expected that the Town will be subsidized by MWPAT on a periodic basis for total interest costs of \$16,781 in fiscal years 2013 through 2021.

Authorized and Unissued Debt – At June 30, 2012, the Town had not authorized any amounts for unissued debt.

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Worcester County Retirement System (the “System”), a multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The System was established under Chapter 32 of MGL and is administered by the Worcester Regional Retirement Board (the “Retirement Board”).

Substantially all employees of the Town participate in the System. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Retirement Board and are borne by the System.

The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester County Retirement System, 23 Midstate Drive, Suite 106, Auburn, MA 01501.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$48,104, \$46,963 and \$36,180, respectively. These contributions were equal to the required contribution for each year as set by the Retirement Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers' Retirement System

Teachers who were previously employed by the Town, when the Town had its own Elementary School and still collect retirement benefits participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$19,026 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

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

D. Other Post-Employment Benefits

The Town has not elected the provisions of MGL Chapter 32 that pertain to providing other postemployment benefits besides pension benefits to retirees. Accordingly there is no liability for health, life or any other benefits except retirement as discussed above. Retirees may, for a period of up to 18 months after retirement pay entirely into the Town under COBRA, the cost of their monthly health insurance premium.

E. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2012, cannot be determined, Town management believes

that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2012.

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

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

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of GASB 57 became effective in fiscal year 2012. Statement 57 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The adoption of GASB 57 did not have a material effect on the Town's financial statements.

B. Future Year Implementation

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

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

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

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

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

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

In March 2012, the GASB issued GASB Statement No. 66; *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB 54 GASB 62. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

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

beginning after June 15, 2013 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

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

* * * * *

TOWN OF PHILLIPSTON

**SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2012**

Worcester Regional Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2010	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%
1/1/2007	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%
1/1/2004	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town of Phillipston	
	Annual Required Contributions (a)	Actual Contributions (a)	Percentage Contributed	Actual Contribution (b)	Town's Percentage of System Wide Contributions (b/a)
2012	\$ 33,072,000	\$ 33,072,000	100.00%	\$ 48,104	0.15%
2011	31,200,000	31,200,000	100.00%	46,963	0.15%
2010	28,800,000	28,800,000	100.00%	36,180	0.13%

See accompanying independent auditor's report.

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

	Budgeted Amounts	Actual		Actual	Variance	
	Original Budget	Final Budget	Budgetary Amounts	Encumbrances	Budgetary Adjusted	Favorable (Unfavorable)
Revenues:						
Property taxes	\$ 2,726,433	\$ 2,726,433	\$ 2,621,673		\$ 2,621,673	\$ (104,760)
Intergovernmental	197,412	197,412	242,550		242,550	45,138
Motor vehicle and other excise	177,000	177,000	181,418		181,418	4,418
Departmental and other revenue	30,000	30,000	73,314		73,314	43,314
Licenses and permits	8,000	8,000	8,448		8,448	448
Fines and forfeitures	27,000	27,000	10,770		10,770	(16,230)
Penalties and interest on taxes	12,000	12,000	23,932		23,932	11,932
Investment income	1,500	1,500	1,816		1,816	316
Total Revenues	<u>3,179,345</u>	<u>3,179,345</u>	<u>3,163,921</u>		<u>3,163,921</u>	<u>(15,424)</u>
Expenditures:						
General government	477,813	477,840	390,562	\$ 47,093	437,655	40,185
Public safety	531,771	531,771	502,891	25,810	528,701	3,070
Education	1,610,303	1,610,303	1,602,384	-	1,602,384	7,919
Public works	214,288	214,288	211,632	-	211,632	2,656
Health and human services	85,006	85,006	62,351	651	63,002	22,004
Culture and recreation	51,339	51,339	36,452	9,799	46,251	5,088
Pension and fringe benefits	3,090	3,090	3,570	-	3,570	(480)
State and county tax assessments	166,504	166,504	132,451	-	132,451	34,053
Debt service	205,499	205,499	133,192	-	133,192	72,307
Total Expenditures	<u>3,345,613</u>	<u>3,345,640</u>	<u>3,075,485</u>	<u>\$ 83,353</u>	<u>3,158,838</u>	<u>186,802</u>
Other Financing Sources (Uses):						
Total Other Financing Sources (Uses)	<u>1,709</u>	<u>1,709</u>	<u>(67,303)</u>		<u>(67,303)</u>	<u>69,012</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR						
BUDGETARY FUND BALANCE	<u>(164,559)</u>	<u>(164,586)</u>	<u>\$ 21,133</u>		<u>\$ (62,220)</u>	<u>\$ 240,390</u>
Other Budgetary Items:						
Prior year encumbrances	95,979	95,979				
Snow and ice deficit	(813)	(813)				
Free cash	68,128	68,128				
Other items	1,265	1,292				
Total Other Budgetary Items	<u>164,559</u>	<u>164,586</u>				
NET BUDGET	<u>\$ -</u>	<u>\$ -</u>				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

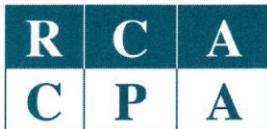
I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by Town Meeting annually in Spring. Expenditures may legally exceed appropriations at the department line item level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting and the department head however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

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

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 3,163,921
On behalf pension subsidy	\$ 19,026	\$ -	19,026
Sixty day receivable difference	65,080	-	65,080
Stabilization Fund revenue	-	4,357	4,357
Revenue on a GAAP basis	<u>\$ 84,106</u>	<u>\$ 4,357</u>	<u>\$ 3,252,384</u>
Expenditures on a budgetary basis			\$ 3,075,485
On behalf pension payments	\$ 19,026	\$ -	19,026
Debt recognition		(75,000)	(75,000)
Expenditures on a GAAP basis	<u>\$ 19,026</u>	<u>\$ (75,000)</u>	<u>\$ 3,019,511</u>
Transfers on a budgetary basis (net)			\$ 1,709
Stabilization transfers	-	(69,012)	(69,012)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (69,012)</u>	<u>\$ (67,303)</u>

Appropriation Deficits – During the fiscal year ended, snow and ice expenditures exceeded appropriations in the General Fund by approximately \$16,000. This amount will be raised through taxation in fiscal year 2013.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Selectmen
Town of Phillipston
Phillipston, Massachusetts

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the "Town") as of and for the year ended June 30, 2012, which collectively compromise the Town's basic financial statements and have issued our report thereon dated November 21, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

Town of Phillipston
Phillipston, Massachusetts

provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town in a separate letter dated November 21, 2012.

This report is intended for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roselli, Clark & Associates". The signature is fluid and cursive, with "Roselli" on the first line and "Clark & associates" on the second line.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 21, 2012