

TURNERS FALLS FIRE DISTRICT
Annual Financial Statements
For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	15
Notes to Financial Statements	16
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	32
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	33



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
Tel (413) 773-5405 • Fax (413) 773-7304
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Prudential Committee
Turners Falls Fire District

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Turners Falls Fire District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Turners Falls Fire District, as of June 30, 2012, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Melanson Heath + Company P.C.

February 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Turners Falls Fire District, we offer readers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The governmental activities include general government, public safety, and water.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available

at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 5,785,879 (i.e., net assets), a decrease of \$ (156,475) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 1,447,806, an increase of \$ 253,275 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 423,246, an increase of \$ 122,146 in comparison with the prior year.
- Total long-term debt (i.e., notes and bonds payable) at the close of the current fiscal year was \$ 1,251,171, an increase of \$ 152,463 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 1,610,029	\$ 1,303,667
Capital assets	<u>6,194,670</u>	<u>6,282,598</u>
Total Assets	7,804,699	7,586,265
Long-term liabilities outstanding	1,909,444	1,578,020
Other liabilities	<u>109,376</u>	<u>65,891</u>
Total Liabilities	2,018,820	1,643,911
Net assets:		
Invested in capital assets, net	5,218,499	5,183,889
Restricted	535,599	630,372
Unrestricted	<u>31,781</u>	<u>128,093</u>
Total Net Assets	<u>\$ 5,785,879</u>	<u>\$ 5,942,354</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 549,676	\$ 661,331
Operating grants and contributions	44,220	53,675
General revenues:		
Property taxes	1,777,970	1,520,756
Penalties and interest on taxes	13,111	15,010
Investment income	3,762	4,676
Other	<u>21,441</u>	<u>2,064</u>
Total Revenues	2,410,180	2,257,512
Expenses:		
General government	632,215	596,817
Public safety	1,119,415	1,001,948
Public works	583,329	564,319
Interest on long-term debt	46,273	45,496
Unallocated depreciation	<u>185,423</u>	<u>185,421</u>
Total expenses	<u>2,566,655</u>	<u>2,394,001</u>
Change in net assets	(156,475)	(136,489)
Net assets - beginning of year	<u>5,942,354</u>	<u>6,078,843</u>
Net assets - end of year	<u>\$ 5,785,879</u>	<u>\$ 5,942,354</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 5,785,879, a decrease of \$ (156,475) from the prior year.

The largest portion of net assets \$ 5,218,499 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 535,599 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 31,781 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (156,475). Key elements of this change are as follows:

- General fund operations, as discussed further in section D \$ 348,048.
- Water fund expenditures over revenues \$ (92,578).
- Special revenue fund expenditures over revenues \$ (2,195).
- Depreciation expense in excess of principal debt service expense \$ (125,968).
- Capital asset additions funded by general revenue and water surplus of \$ 160,577.
- Current year other post-employment benefits \$ (178,800).
- Long-term note proceeds were included as a funding source in general fund operations, but reported as a liability (payable) in governmental activities; \$ (275,000).
- Other GAAP accruals \$ 9,441.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 1,447,806, an increase of \$ 253,275 in comparison with the prior year. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 348,048
Water fund expenditures and transfers out in excess of revenues and transfers	(92,578)
Special revenue fund expenditures over revenues	<u>(2,195)</u>
Total	<u>\$ 253,275</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 423,246, while total fund balance was \$ 912,207. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% of Total 2012 General Fund Expenditures</u>
Unassigned fund balance	\$ 423,246	\$ 301,100	\$ 122,146	25%
Total fund balance ¹	912,207	564,159	348,048	53%

¹ Includes Stabilization Fund.

The total fund balance of the general fund changed by \$ 348,048 during the current fiscal year. Key factors in this change are as follows:

Non property tax revenues under budget	\$ 6,906
Excess (shortfall) of property tax collections	1,294
Expenditures less than budget	171,625
Use of fund balance as a funding source	(72,052)
Expenditures in the current year, funded by a previous year budget	(138,285)
Current year expenditure carryforwards to be expended in a subsequent year	479,302
Stabilization interest income	102
Adjust for budgeted transfer between Stabilization and General fund eliminated through consolidation	(100,000)
Other GAAP accruals	<u>(844)</u>
Total	<u>\$ 348,048</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 72,052. Major reasons for these amendments include:

- \$ 15,217 use of prior year encumbrances and \$ 10,835 from free cash for fire department equipment and promotional exams;
- \$ 26,000 from free cash for payment of fire department call back and sick leave relief;
- \$ 20,000 from free cash for construction of a new well for the water department.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 6,194,670 (net of accumulated depreciation), a decrease of \$ (87,928) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- New well construction in progress \$ 61,711.
- Water department dump truck \$ 47,514; utility tractor \$ 30,193; and generator \$ 21,159.
- Depreciation expense of \$ (248,505).

Additional information on capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 1,251,171, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Eileen Tela, District Accountant
Turners Falls Fire District
226 Millers Falls Road
Turners Falls, MA 01376

TURNERS FALLS FIRE DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 1,473,856
Receivables, net of allowance for uncollectibles:	
Property taxes	72,885
User fees	36,180
Departmental	4,316
Intergovernmental	4,824
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Property taxes	17,968
Land and construction in progress	1,109,249
Capital assets, net of accumulated depreciation	<u>5,085,421</u>
TOTAL ASSETS	7,804,699
LIABILITIES	
Current:	
Warrants payable	51,924
Accounts payable	13,760
Accrued payroll and withholdings	20,494
Accrued interest payable	22,818
Other current liability	380
Current portion of long-term liabilities:	
Note payable	55,000
Loans payable	123,717
Noncurrent:	
Notes payable, net of current portion	220,000
Loans payable, net of current portion	852,454
Compensated absences	128,673
Net OPEB obligation	<u>529,600</u>
TOTAL LIABILITIES	2,018,820
NET ASSETS	
Invested in capital assets, net of related debt	5,218,499
Restricted for:	
Grants and other statutory restrictions	535,599
Unrestricted	<u>31,781</u>
TOTAL NET ASSETS	\$ <u>5,785,879</u>

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
General government	\$ 632,215	\$ -	\$ -	\$ (632,215)
Public safety	1,119,415	8,794	20,100	(1,090,521)
Public works	583,329	540,882	24,120	(18,327)
Interest	46,273	-	-	(46,273)
Unallocated depreciation	185,423	-	-	(185,423)
Total	<u>\$ 2,566,655</u>	<u>\$ 549,676</u>	<u>\$ 44,220</u>	(1,972,759)
General Revenues:				
				1,777,970
				13,111
				3,762
				<u>21,441</u>
Total general revenues				<u>1,816,284</u>
Change in Net Assets				(156,475)
Net Assets:				
Beginning of year				<u>5,942,354</u>
End of year				<u>\$ 5,785,879</u>

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Water</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 930,649	\$ 543,207	\$ -	\$ 1,473,856
Receivables:				
Property taxes	76,688	-	-	76,688
Tax liens and foreclosures	50,508	-	-	50,508
User fees	-	36,180	-	36,180
Departmental	4,316	-	-	4,316
Intergovernmental	-	-	4,824	4,824
Due from other funds	571	-	-	571
TOTAL ASSETS	\$ <u>1,062,732</u>	\$ <u>579,387</u>	\$ <u>4,824</u>	\$ <u>1,646,943</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 13,011	\$ 38,913	\$ -	\$ 51,924
Accounts payable	9,229	4,531	-	13,760
Accrued payroll and withholdings	16,017	4,477	-	20,494
Due to other funds	-	-	571	571
Other liabilities	260	120	-	380
Deferred revenues	112,008	-	-	112,008
TOTAL LIABILITIES	150,525	48,041	571	199,137
Fund Balances:				
Reserved for:				
Restricted	-	531,346	4,253	535,599
Committed	488,961	-	-	488,961
Unassigned	423,246	-	-	423,246
TOTAL FUND BALANCES	<u>912,207</u>	<u>531,346</u>	<u>4,253</u>	<u>1,447,806</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>1,062,732</u>	\$ <u>579,387</u>	\$ <u>4,824</u>	\$ <u>1,646,943</u>

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total Governmental Fund Balances	\$ 1,447,806
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,194,670
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection and are net of an allowance for uncollectible.	75,665
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(22,818)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(1,909,444)</u>
Net Assets of Governmental Activities	<u><u>\$ 5,785,879</u></u>

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Water</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 1,766,905	\$ -	\$ -	\$ 1,766,905
Penalties, interest and other taxes	13,111	-	-	13,111
Charges for services	8,794	540,882	-	549,676
Intergovernmental	-	-	44,220	44,220
Investment income	3,762	-	-	3,762
Miscellaneous	<u>8,941</u>	<u>-</u>	<u>-</u>	<u>8,941</u>
Total Revenues	1,801,513	540,882	44,220	2,386,615
Expenditures:				
Current:				
General government	621,285	-	-	621,285
Public safety	922,333	-	22,295	944,628
Public works	-	650,960	24,120	675,080
Debt service	<u>167,347</u>	<u>-</u>	<u>-</u>	<u>167,347</u>
Total Expenditures	<u>1,710,965</u>	<u>650,960</u>	<u>46,415</u>	<u>2,408,340</u>
Excess (deficiency) of revenues over expenditures	90,548	(110,078)	(2,195)	(21,725)
Other Financing Sources (Uses):				
Long-term note proceeds	275,000	-	-	275,000
Transfers in	2,500	20,000	-	22,500
Transfers out	<u>(20,000)</u>	<u>(2,500)</u>	<u>-</u>	<u>(22,500)</u>
Total Other Financing Sources (Uses)	<u>257,500</u>	<u>17,500</u>	<u>-</u>	<u>275,000</u>
Change in fund balance	348,048	(92,578)	(2,195)	253,275
Fund Equity, at Beginning of Year	<u>564,159</u>	<u>623,924</u>	<u>6,448</u>	<u>1,194,531</u>
Fund Equity, at End of Year	<u>\$ 912,207</u>	<u>\$ 531,346</u>	<u>\$ 4,253</u>	<u>\$ 1,447,806</u>

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2012

Net Changes in Fund Balances -															
Total Governmental Funds	\$ 253,275														
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="width: 20%; text-align: right;">160,577</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(248,505)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Therefore, the recognition of revenue for property tax receivables differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectibles. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;">11,065</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="width: 20%; text-align: right;">122,537</td> </tr> <tr> <td>Issuance of notes payable</td> <td style="text-align: right;">(275,000)</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;">(1,463)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences and other post employment benefits, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;"><u>(178,961)</u></td> </tr> </table> 		Capital outlay purchases	160,577	Depreciation	(248,505)		11,065	Repayments of debt	122,537	Issuance of notes payable	(275,000)		(1,463)		<u>(178,961)</u>
Capital outlay purchases	160,577														
Depreciation	(248,505)														
	11,065														
Repayments of debt	122,537														
Issuance of notes payable	(275,000)														
	(1,463)														
	<u>(178,961)</u>														
Change in Net Assets of Governmental Activities	\$ <u>(156,475)</u>														

See notes to financial statements.

TURNERS FALLS FIRE DISTRICT

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 1,765,611	\$ 1,765,611	\$ 1,765,611	\$ -
Penalties, interest and other taxes	13,000	13,000	13,111	111
Charges for services	13,500	13,500	8,794	(4,706)
Investment income	1,000	1,000	3,660	2,660
Miscellaneous	100	100	8,941	8,841
Other sources	<u>377,500</u>	<u>449,552</u>	<u>449,552</u>	<u>-</u>
Total Revenues and Other Sources	2,170,711	2,242,763	2,249,669	6,906
Expenditures and Other Uses:				
General government	651,691	651,691	621,062	30,629
Public safety	1,222,420	1,274,472	1,262,729	11,743
Debt service	296,600	296,600	167,347	129,253
Transfers out and other uses	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,170,711</u>	<u>2,242,763</u>	<u>2,071,138</u>	<u>171,625</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>178,531</u>	\$ <u>178,531</u>

See notes to financial statements.

Turners Falls Fire District
Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2012, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes, fees and intergovernmental revenues.

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

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *water fund* is used to account for all water revenues and related expenses, except for debt service, which is accounted for in the general fund.

- The *special revenue fund* is used to account for federal and state grant activity.

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 Governmental Accounting Standards Board.

D. Cash and Short-Term Investments

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

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

E. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with initial individual costs as detailed below and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>	Initial Cost <u>Over</u>
Land improvements	20	\$ 25,000
Buildings	40	100,000
Building improvements	20	50,000
Water/sewer infrastructure	50	150,000
Vehicles and equipment	5	5,000

F. Compensated Absences

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

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

H. Fund Equity

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

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

The District’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds

are created by statute or otherwise have external constraints on how the funds can be expended.

- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., District Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

I. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual District meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by District

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 1,801,513	\$ 1,710,965
Other financing sources/uses (GAAP basis)	277,500	20,000
Remove the effect of consolidating the Stabilization and General Fund	99,898	-
Adjust tax revenue to accrual basis	(1,294)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(138,285)
Add end of year appropriation carryforwards to expenditures	-	479,302
Other GAAP adjustments	-	(844)
Recognize use of fund balance as funding source	<u>72,052</u>	<u>-</u>
Budgetary basis	<u>\$ 2,249,669</u>	<u>\$ 2,071,138</u>

3. **Cash and Short-Term Investments**

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

As of June 30, 2012, \$ 68,967 of the District's bank balance of \$ 1,487,010 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the District's name.

4. **Taxes Receivable**

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

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

Real Estate		
2012	\$ 51,783	
2011	19,091	
2010	4,602	
Prior	<u>555</u>	76,031
Personal Property		
2012	296	
2011	142	
2010	<u>219</u>	<u>657</u>
Total Current Property Tax		\$ <u>76,688</u>
Tax Title		\$ 8,045
Foreclosures		<u>42,463</u>
Total Non-Current Property Tax		\$ <u>50,508</u>

5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect an estimated allowance for doubtful accounts for current property tax of \$ 3,803 and tax liens and foreclosures of \$ 32,540.

6. Capital Assets

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

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 823,160	\$ -	\$ -	\$ 823,160
Machinery, equipment, and furnishings	977,850	98,866	(26,510)	1,050,206
Infrastructure	<u>8,000,973</u>	<u>-</u>	<u>-</u>	<u>8,000,973</u>
Total capital assets, being depreciated	9,801,983	98,866	(26,510)	9,874,339
Less accumulated depreciation for:				
Buildings and improvements	(548,402)	(22,318)	-	(570,720)
Machinery, equipment, and furnishings	(769,224)	(63,082)	26,510	(805,796)
Infrastructure	<u>(3,249,297)</u>	<u>(163,105)</u>	<u>-</u>	<u>(3,412,402)</u>
Total accumulated depreciation	<u>(4,566,923)</u>	<u>(248,505)</u>	<u>26,510</u>	<u>(4,788,918)</u>
Total capital assets, being depreciated, net	5,235,060	(149,639)	-	5,085,421
Capital assets, not being depreciated:				
Land	613,161	-	-	613,161
Construction in progress (CIP)	<u>434,377</u>	<u>61,711</u>	<u>-</u>	<u>496,088</u>
Total capital assets, not being depreciated	<u>1,047,538</u>	<u>61,711</u>	<u>-</u>	<u>1,109,249</u>
Governmental activities capital assets, net	\$ <u>6,282,598</u>	\$ <u>(87,928)</u>	\$ <u>-</u>	\$ <u>6,194,670</u>

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

Governmental Activities:	
Public safety	\$ 39,830
Public works	23,252
Unallocated	<u>185,423</u>
Total depreciation expense - governmental activities	\$ <u>248,505</u>

7. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law. Accounts payable represents additional 2012 expenditures paid after July 15, 2012.

8. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

9. Long-Term Debt

A. General Obligation Debt

The District issues USDA Rural Development Administration (RDA) loans to provide funds for the acquisition and construction of major capital facilities and equipment. RDA loans have been issued for general and water fund activities. Payment is not limited to a particular revenue source. General obligation debt and long term notes payable currently outstanding is as follows:

<u>RDA Loans Payable:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2012
Storage tank	11/24/12	5.50%	\$ 85,000
Fire truck	09/27/14	4.75%	24,845
Millers Falls main	10/15/29	3.25%	368,537
Water filtration	12/01/30	4.75%	155,619
Grove/Goddard Hillside	12/01/30	5.00%	117,647
Water treatment	03/01/34	4.50%	<u>224,523</u>
Total Loans Payable			\$ 976,171
 <u>Long term notes payable:</u>			
Note payable	1/17/2017	2.30%	\$ <u>275,000</u>
Total Long Term Note Payable			<u>275,000</u>
Total Long Term Debt			<u>\$ 1,251,171</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 178,717	\$ 45,281	\$ 223,998
2014	95,317	40,078	135,395
2015	96,688	37,142	133,830
2016	89,540	34,136	123,676
2017	90,919	31,492	122,411
2018 - 2022	202,376	128,354	330,730
2023 - 2027	246,538	84,191	330,729
2028- 2032	221,390	30,915	252,305
Thereafter	<u>29,686</u>	<u>2,062</u>	<u>31,748</u>
Total	<u>\$ 1,251,171</u>	<u>\$ 433,651</u>	<u>\$ 1,684,822</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2011	Additions	Reductions	Total Balance June 30, 2012	Less Current Portion	Equals Long-Term Portion June 30, 2012
<u>Governmental Activities</u>						
Loans payable	\$ 1,098,708	\$ -	\$ (122,537)	\$ 976,171	\$ (123,717)	\$ 852,454
Notes payable	-	275,000	-	275,000	(55,000)	220,000
Other:						
Accrued employee benefits	128,512	161	-	128,673	-	128,673
Other post employment benefits	350,800	178,800	-	529,600	-	529,600
Totals	\$ <u>1,578,020</u>	\$ <u>453,961</u>	\$ <u>(122,537)</u>	\$ <u>1,909,444</u>	\$ <u>(178,717)</u>	\$ <u>1,730,727</u>

10. Governmental Funds – Balances

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

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

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

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes the District's water fund and special revenue funds.

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

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

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

	<u>General Fund</u>	<u>Water Fund</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Restricted				
Water fund	\$ -	\$ 531,346	\$ -	\$ 531,346
Special revenue funds	<u>-</u>	<u>-</u>	<u>4,253</u>	<u>4,253</u>
Total Restricted	<u>\$ -</u>	<u>\$ 531,346</u>	<u>\$ 4,253</u>	<u>\$ 535,599</u>
Committed				
Special articles	\$ 479,302	\$ -	\$ -	\$ 479,302
Stabilization funds	<u>9,659</u>	<u>-</u>	<u>-</u>	<u>9,659</u>
Total Committed	<u>\$ 488,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 488,961</u>
Unassigned	<u>\$ 423,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 423,246</u>
Total Fund Balance	<u>\$ 912,207</u>	<u>\$ 531,346</u>	<u>\$ 4,253</u>	<u>\$ 1,447,806</u>

11. Commitments and Contingencies

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

Verizon Abatement Refund – In September 2012 an Appellate Tax Board case was decided in favor of Verizon. As a result, the District is required to refund to Verizon 2009 personal property taxes, plus 8% interest. The District will pay \$ 8,136 from overlay surplus.

12. Pension Plan

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

A. Plan Description

The District contributes to the Montague County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries.

Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Montague Retirement Board, Town Hall, One Avenue A, Turners Falls, MA 01376.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the District are governed by Chapter 32 of the Massachusetts General Laws. The District's contributions to the System for the years ended June 30, 2012, 2011, and 2010, were \$ 167,214, \$ 154,632, and \$ 142,596, respectively, which were equal to its annual required contributions for each of these years.

13. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in the previous footnote, the District provides post-employment health care and life insurance benefits for retired employees through the District's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2010, the actuarial valuation date, approximately 19 retirees and 26 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 20% of the cost of the health plan, as determined by the District. The District contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 258,105
Interest of beginning net OPEB obligation	14,032
ARC adjustment	<u>(8,228)</u>
Annual OPEB cost	263,909
Contributions made	<u>(85,109)</u>
Increase in net OPEB obligation	178,800
Net OPEB obligation - beginning of year	<u>350,800</u>
Net OPEB obligation - end of year	<u>\$ 529,600</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 263,909	32%	\$ 178,800
2011	\$ 253,715	29%	\$ 179,450
2010	\$ 234,335	27%	\$ 171,350

The District's net OPEB obligation as of June 30, 2012 is recorded as a long-term liability in the Statement of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 2,903,875
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,903,875</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>853,709</u>
UAAL as a percentage of covered payroll	<u>340%</u>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2010 actuarial valuation the entry age normal cost method was used. The actuarial value of assets was not determined as the District has not advance funded its obligation. The actuarial assumptions included average salary increases of 2.75%, a 4% investment rate of return and an initial annual healthcare cost trend rate of 7% which

decreases to a 6.5% long-term rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis.

14. Risk Management

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

**TURNERS FALLS FIRE DISTRICT
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2012
(Unaudited)
(Amounts Expressed in thousands)**

Other Post Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/10	\$ -	\$ 2,904	\$ 2,904	0.0%	\$ 854	340%

See Independent Auditors' Report.



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
Tel (413) 773-5405 • Fax (413) 773-7304
www.melansonheath.com

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

To the Prudential Committee
Turners Falls Fire District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Turners Falls Fire District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 12, 2013. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of the 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 District'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 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*.

This report is intended solely for the information and use of management, the Prudential Committee, others within the entity, 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.

Melanson Heath + Company P.C.

February 12, 2013