

**Town of Templeton, Massachusetts
Municipal Water Department**

**Financial Statements
And Supplementary Information**

**For the Years Ended
June 30, 2012 and 2011**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners of
Town of Templeton, Massachusetts, Municipal Water Department
Baldwinville, Massachusetts

We have audited the accompanying statements of net assets of the **Templeton, Massachusetts, Municipal Water Department** (an enterprise fund of the Town of Templeton, Massachusetts) as of June 30, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Templeton, Massachusetts, Municipal Water Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements present only the Municipal Water Department and do not purport to, and do not, present fairly the financial position of Town of Templeton, Massachusetts, as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Templeton, Massachusetts, Municipal Water Department** as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 5 and the required supplementary information on pages 16 and 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 18 through 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financials statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended for the information and use of the municipal water board and management of Templeton, Massachusetts, Municipal Water Plant and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Braver PC".

Providence, Rhode Island
February 1, 2013

Within this section of the Town of Templeton, Massachusetts, Municipal Water Department (the "Department") annual financial report, management provides narrative discussion and analysis of the financial activities of the Department for the year ended June 30, 2012. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net assets, (2) the statements of revenue, expenses and changes in net assets, (3) the cash flow statements, and (4) notes to financial statements.

The statements of net assets are designed to indicate our financial position as of a specific point in time. At June 30, 2012, it shows our net assets have increased compared to the year ended June 30, 2011, by a total of \$41,791. The increase consists of our net income for the year of \$41,791.

The statements of revenue, expenses and changes in net assets summarize our operating results and reveal how much, if any, income was earned for the year. As discussed in more detail below, our net income for the year ended June 30, 2012, was \$41,791.

The statements of cash flows provide information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financial activities for the same period. A review of our statements of cash flows indicates that the cash receipts from operating activities, (that is, water sales and related services) adequately covers our operating expenses as well as our capital expenditures and debt service.

Summary of Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 317,949	\$ 289,672	\$ 263,740
Noncurrent assets	<u>6,793,104</u>	<u>6,982,995</u>	<u>7,082,925</u>
Total assets	<u>\$ 7,111,053</u>	<u>\$ 7,272,667</u>	<u>\$ 7,346,665</u>
Current liabilities	\$ 591,971	\$ 517,369	\$ 610,306
Noncurrent liabilities	<u>3,909,131</u>	<u>4,187,138</u>	<u>4,440,034</u>
Total liabilities	<u>4,501,102</u>	<u>4,704,507</u>	<u>5,050,340</u>
Net assets invested in capital assets, net of related debt and capital contribution	2,631,457	2,464,368	2,270,881
Restricted for capital additions	14,098	14,098	15,017
Unrestricted net assets (deficit)	<u>(35,604)</u>	<u>89,694</u>	<u>10,427</u>
Total net assets	<u>2,609,951</u>	<u>2,568,160</u>	<u>2,296,325</u>
Total liabilities and net assets	<u>\$ 7,111,053</u>	<u>\$ 7,272,667</u>	<u>\$ 7,346,665</u>

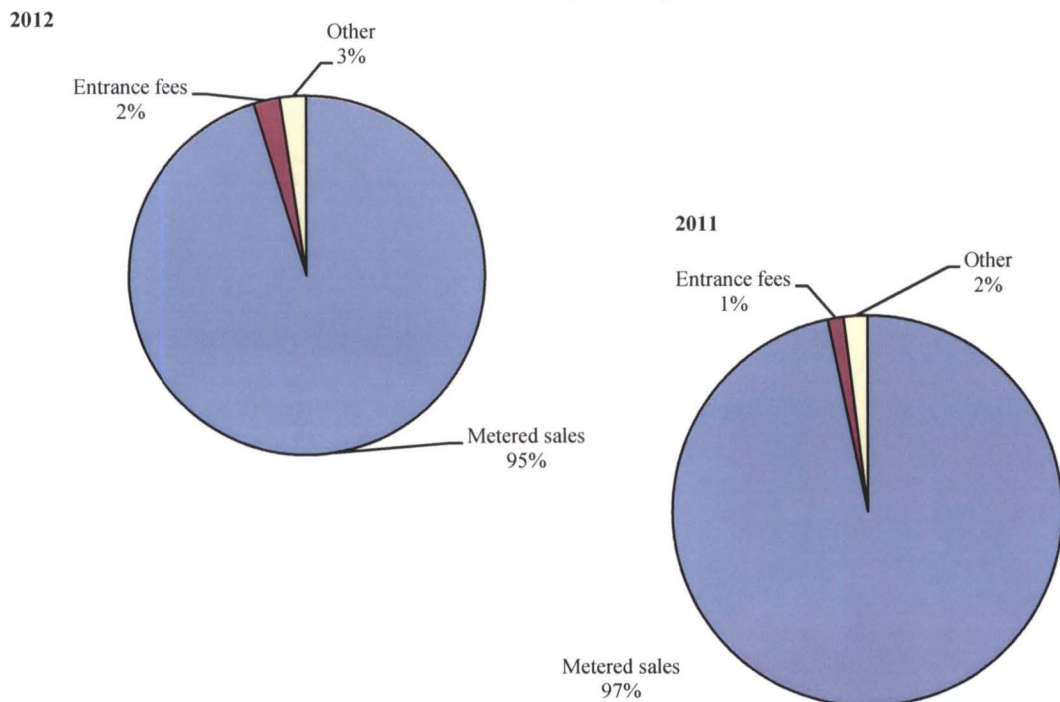
Summary of Changes in Net Assets

	2012	2011	2009
Operating revenue	\$ 1,158,493	\$ 1,242,628	\$ 1,209,229
Operating expenses	954,093	950,836	932,540
Operating income	204,400	291,792	276,689
Nonoperating revenues less nonoperating expenses	(162,609)	(12,192)	(183,195)
Net income	41,791	279,600	93,494
Assets transferred to Town	-	(7,765)	-
Change in net assets	<u>\$ 41,791</u>	<u>\$ 271,835</u>	<u>\$ 93,494</u>

Financial Highlights:

Operating revenues decreased from \$1,242,628 in 2011 to \$1,158,493 in 2012, primarily due to a decrease in residential and industrial sales. Revenue from metered sales and entrance fees has changed cyclically over the past three years.

Source of Operating Revenues



Water Sales and Supply:

The Water Department provides public water to 2,185 residences and businesses within the town of Templeton, Massachusetts. Water is pumped from a total of four wells, two on Maple Street in Baldwinville, one on Sawyer Street in East Templeton and another on Willow Street in Otter River. Templeton Water sold 120,847,590 gallons of water to its 2,185 water customers in 2012. Templeton Water's focus over this past fiscal year has been continued regulatory compliance with the Massachusetts Department of Environmental Protection (MA DEP).

Utility Plant and Debt Administration:

Utility Plant

Net utility plant decreased by \$178,290 in fiscal year 2012. This decrease represents the difference between the current year net additions of \$17,152 and the current fiscal year depreciation expense of \$195,442. During fiscal 2012, Templeton Water continued to work with the Town towards water infrastructure improvements in Baldwinville as part of the Phase IV of the Back Bay Reconstruction Project, a Community Development Block Grant Project. Templeton Water also invested an additional \$30,914 in its Zone II Re-Delineation Study utilizing the services of Tata and Howad, and continues to work with them on the development of a new well location to replace the Maple Street well sites. Templeton Water also spent \$9,529 on steel fencing around its South Road Water booster pump station and storage tank to comply with MA DEP regulations. In its continuing efforts to assure accurate metering of water sold, Templeton Water spent \$7,770 on new meters for its customers.

Debt Administration

The Water Department, over the past eleven years, has incurred debt through Town-issued bonds for \$3,800,000 and \$2,300,000 as well as a U.S.D.A. loan for \$332,000. These funds have been used to make several infrastructure improvements, including new water distribution mains, a new water storage tank in Baldwinville and a new water treatment facility in East Templeton. In fiscal year 2012, Templeton made its second of four lease payments on a water vehicle purchased in fiscal year 2011 and recognized the lease obligation in the liability section of our Statement of Net Assets. Principal paid on the debt this fiscal year amounted to \$313,297 for bonds and \$8,931 for the truck.

Interest and principal payments on debt have and will continue to be paid with revenue received from the sale of water.

Significant Balances and Transactions:

Shared Facilities

The Water Department has shared facilities and some administrative personnel with the Town of Templeton Municipal Light Plant. The Water Department pays its share of the salary, wages and benefits for the costs of shared personnel.

Town of Templeton, Massachusetts, Municipal Water Department

Statements of Net Assets June 30, 2012 and 2011

<i>Assets</i>	<u>2012</u>	<u>2011</u>	<i>Liabilities and Net Assets</i>	<u>2012</u>	<u>2011</u>
Current and accrued assets			Current and accrued liabilities		
Operating cash	\$ 71,341	\$ 12,001	Current portion long-term debt	\$ 313,297	\$ 313,297
Petty cash	400	400	Current portion capital lease obligation	8,931	10,910
Accounts receivable	149,653	179,845	Accounts payable	84,859	37,262
Liens receivable	8,883	10,854	Payable to Municipal Light Department	146,034	116,863
Prepaid expenses	40,942	39,298	Accrued compensation	15,849	14,509
Materials and supplies	46,730	47,274	Accrued interest	23,001	24,528
Total current and accrued assets	<u>317,949</u>	<u>289,672</u>	Total current and accrued liabilities	<u>591,971</u>	<u>517,369</u>
Other assets			Long-term debt		
Unamortized debt acquisition cost	33,053	35,564	Bonds payable	3,775,479	4,088,776
Deferred interest on capital lease	2,066	4,045	Capital lease obligation	12,888	21,819
Depreciation cash designated for capital additions	1,835	51,937	Total long-term debt	<u>3,788,367</u>	<u>4,110,595</u>
Total current and accrued assets	<u>36,954</u>	<u>91,546</u>	Reserves		
Restricted assets			Reserve for OPEB liability	120,764	76,543
Bond proceeds restricted for capital additions	14,098	14,098	Total reserves	<u>120,764</u>	<u>76,543</u>
Total restricted assets	<u>14,098</u>	<u>14,098</u>	Total liabilities	<u>4,501,102</u>	<u>4,704,507</u>
Plant			Net assets		
Plant in service, at cost	8,378,152	8,357,349	Investment in plant, net of related debt	2,631,457	2,464,368
Less: accumulated depreciation	(1,807,195)	(1,608,102)	Restricted for capital additions	14,098	14,098
Net plant in service	6,570,957	6,749,247	Unrestricted	(35,604)	89,694
Construction in progress	171,095	128,104	Total net assets	<u>2,609,951</u>	<u>2,568,160</u>
Net plant	<u>6,742,052</u>	<u>6,877,351</u>	Total liabilities and net assets	<u>\$ 7,111,053</u>	<u>\$ 7,272,667</u>
Total assets	<u>\$ 7,111,053</u>	<u>\$ 7,272,667</u>			

The accompanying notes are an integral part of these financial statements

Town of Templeton, Massachusetts, Municipal Water Department

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Metered sales	\$ 1,103,285	\$ 1,202,062
Entrance fees	27,500	16,000
Miscellaneous operating income	<u>27,708</u>	<u>24,566</u>
Total operating revenue	<u>1,158,493</u>	<u>1,242,628</u>
Operating expenses		
Operating expenses	545,645	547,386
Maintenance expenses	213,006	209,149
Depreciation	<u>195,442</u>	<u>194,301</u>
Total operating expenses	<u>954,093</u>	<u>950,836</u>
Total operating income	<u>204,400</u>	<u>291,792</u>
Other income		
Interest income	602	963
Miscellaneous other income	<u>5,158</u>	<u>163,524</u>
Total other income	<u>5,760</u>	<u>164,487</u>
Other income deductions		
Interest expense	166,771	175,069
Loss on disposal of plant	<u>1,598</u>	<u>1,610</u>
Total other income deductions	<u>168,369</u>	<u>176,679</u>
Net income	<u><u>\$ 41,791</u></u>	<u><u>\$ 279,600</u></u>
Changes in net assets		
Net assets, beginning of year	\$ 2,568,160	\$ 2,296,325
Transfer of truck to Town of Templeton	-	(7,765)
Balance transferred from income	<u>41,791</u>	<u>279,600</u>
Net assets, end of year	<u><u>\$ 2,609,951</u></u>	<u><u>\$ 2,568,160</u></u>

The accompanying notes are an integral part of these financial statements

Town of Templeton, Massachusetts, Municipal Water Department

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,190,656	\$ 1,224,756
Cash payments to suppliers and employees	(637,422)	(661,427)
Other revenues received	5,158	1,065
Net cash provided by operating activities	<u>558,392</u>	<u>564,394</u>
Cash flows from capital and related financing activities		
Additions to plant and construction in progress, net of property sold	(60,757)	(55,181)
Payments on long-term debt	(313,297)	(313,297)
Interest paid on long-term debt	(164,792)	(174,090)
Payments on long-term capital lease obligations	(10,910)	(10,910)
Net cash used by capital and related financing activities	<u>(549,756)</u>	<u>(553,478)</u>
Cash flows from investing activities		
Interest received on investments	602	963
Net increase in cash	9,238	11,879
Cash, beginning of year	78,436	66,557
Cash, end of year	<u>\$ 87,674</u>	<u>\$ 78,436</u>
<i>Supplementary Disclosure of Cash Flow Information</i>		
Cash paid for interest	<u>\$ 164,792</u>	<u>\$ 174,090</u>
<i>Noncash Investing and Financing Activities</i>		
Acquisition capital lease	\$ -	\$ 43,639
Deferred interest capital lease	-	(4,045)
Transfer of truck to Town of Templeton	-	(7,765)
<i>Total Noncash Investing and Financing Activities</i>	<u>\$ -</u>	<u>\$ 31,829</u>
Cash is designated on the balance sheet as follows		
Cash	\$ 71,341	\$ 12,001
Petty cash	400	400
Depreciation cash designated for capital additions	1,835	51,937
Cash reserved for capital additions	14,098	14,098
Total cash	<u>\$ 87,674</u>	<u>\$ 78,436</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 204,400	\$ 291,792
Adjustments to reconcile net income to net cash from operating activities		
Other non-operating income	5,158	13,963
Depreciation	195,442	194,300
Previously invoiced building expenses forgiven by Light Plant	-	149,561
Decrease (increase) in:		
Accounts receivable	32,163	(17,872)
Materials and supplies	544	1,778
Prepaid expenses	(1,644)	(5,396)
Increase (decrease) in:		
Accounts payable	47,597	17,478
OPEB liability	44,221	38,582
Accrued expenses	1,340	1,420
Other payables	29,171	(121,212)
Net cash provided by operating activities	<u>\$ 558,392</u>	<u>\$ 564,394</u>

The accompanying notes are an integral part of these financial statements

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

1. Organization

The Town of Templeton, Massachusetts, Municipal Water Department ("the Department") is an enterprise fund of the Town of Templeton, Massachusetts. The Department provides water and related services to consumers within the Town of Templeton.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Department is considered an enterprise fund of the Town of Templeton, Massachusetts. The operations of the Department are accounted for with a separate set of self-balancing accounts organized on a Proprietary Fund type (Enterprise Fund) basis.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Department's policy is to prepare its financial statements on the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

Enterprise funds generally follow private sector standards of accounting and financial reporting issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board, in which case governmental standards prevail. The Department follows subsequent private sector standards subject to this same limitation.

Utility Plant

Items capitalized as utility plant are carried at cost less accumulated depreciation. The Department capitalizes assets with a useful life of more than one year. Current charges to depreciation are calculated on cost at the beginning of the year based on percentages of from 1.66% to 10%, depending upon the estimated useful lives. No depreciation is taken in the year of acquisition; a full year depreciation is taken in the year of disposal.

Revenue Recognition

Revenues are based on rates established by the Department. Revenues from sales of water are recorded on the basis of bills rendered from quarterly readings taken on a cycle basis. Revenues are stated net of discounts.

Materials and Supplies Inventory

Materials and supplies inventory consists of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and is stated at average cost.

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows, the Department considers amounts on deposit with the Town Treasurer to be cash equivalents.

Accounts Receivable

When accounts are deemed uncollectible by the Water Department General Manager, a lien is placed on the property through the Town's tax assessment procedure. Because of this procedure, few accounts are actually written off, and an allowance for doubtful accounts is deemed unnecessary by the Department.

Taxes

The Department is exempt from federal and state income taxes as well as property taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting standards generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Employees are allowed to carryover up to one week of unused vacation time to the following year. Upon retirement employees are paid 25% of accumulated sick time. The Department has accrued the vacation time carried over as well as unused sick time for employees who are eligible for retirement.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The date to which events occurring after June 30, 2012, the date of the most recent statement of financial position, have been evaluated for possible adjustment to financial statement disclosure is February 1, 2013 which is the date the financial statements were available to be issued.

3. Pension Plan

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

Plan Description

The Department provides retirement benefits to employees through a contributory retirement system administered by the Worcester County Retirement System (System), a cost-sharing, multiemployer public employee retirement system. The System provides retirement, disability and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The System issues a publicly available financial report which can be obtained through the Worcester County Retirement System in Worcester, Massachusetts.

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

3. Pension Plan (Continued)

Plan Description (Continued)

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees. Member's become fully vested after ten years of creditable service.

Funding Policy

Active members are required to contribute from five to nine percent of their gross regular compensation depending on the date upon which their membership began. The Department 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 Town of Templeton is assessed by the System, and the Town allocates the required contribution among its departments based on covered payroll. The Department's contributions to the System for the years ended June 30, 2012, 2011, and 2010 were \$44,221, \$32,419 and \$32,432, respectively, which were equal to its annual required contribution.

4. Long-term Debt

The following is a summary of the Department's long-term debt transactions for the years ended June 30, 2012 and 2011.

	2012	2011
Debt outstanding, beginning of year	\$ 4,088,796	\$ 4,402,073
Retirements and repayments	(313,297)	(313,297)
Debt outstanding, end of year	<u>\$ 3,775,499</u>	<u>\$ 4,088,776</u>

Long-term debt consists of interest bearing bonds detailed below:

\$3,800,000 bond issued June 15, 2003; principal payable annually on June 15 commencing in 2004 and ending in 2023; interest payable semiannually on June 15 and December 15 at rates from 2.6% to 4% per annum.	\$ 2,090,000	\$ 2,280,000
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\$2,300,000 bond issued September 1, 2006; principal payable annually on September 1 commencing in 2007 and ending in 2026; interest payable semiannually on March 1 and September 1 at 4.75% per annum.	1,725,000	1,840,000
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\$331,855 USDA construction loan issued August 27, 2004, payable annually on August 27 commencing in 2005 and ending in 2044; interest payable annually on August 27 at a rate of 4.625% per annum.	273,776	282,073
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	4,088,776	4,402,073
	(313,297)	(313,297)
Less current portion		
Total long-term debt	<u>\$ 3,775,479</u>	<u>\$ 4,088,776</u>

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

4. Long-term Debt (Continued)

Presented below is a summary of debt service requirements by years:

	Principal	Interest	Total
June 30, 2013	\$ 313,297	\$ 153,311	\$ 466,608
2014	313,297	142,558	455,855
2015	313,297	131,645	444,942
2016	313,297	120,541	433,838
2017	313,297	109,152	422,449
2018 - 2022	1,566,485	368,642	1,935,127
2023 - 2027	806,485	105,387	911,872
2028 - 2032	41,485	30,693	72,178
2033 - 2037	41,485	21,100	62,585
2038 - 2042	41,485	11,506	52,991
2043 - 2045	24,866	2,299	27,165
Total debt service requirements	<u>\$ 4,088,776</u>	<u>\$ 1,196,834</u>	<u>\$ 5,285,610</u>

5. Related Party Transactions

The Department occupies common administrative space with the Town of Templeton Municipal Light Plant, and certain administrative duties are performed by employees of the Light Plant. The Department reimburses the Light Plant for certain employees' labor and for certain expenses. Reimbursement for 2012 and 2011 was \$29,171 and \$28,349, respectively.

The Department occupies space in a building owned by the Light Plant. Through December 2010, the Department was assessed a portion of the expenses related to that building in the form of rent. At December 31, 2010, the unpaid rent was forgiven, and the Department recognized an additional \$149,561 in other miscellaneous income for the year ending June 30, 2011.

6. Capital Lease

In January, 2011, the Department acquired transportation equipment under the provisions of a long-term lease. For financial reporting purposes, minimum lease payments relating to the equipment have been capitalized. The lease expires in January 2014. Property acquired under the capital lease, as of June 30, 2011, had a cost and a net book value of \$39,644. Amortization of the leased property is included in depreciation expense.

Presented below is a summary of lease requirements by years:

	Principal	Interest	Total
June 30, 2013	\$ 9,547	\$ 1,363	\$ 10,910
2014	10,206	703	10,909
Total lease requirements	<u>\$ 19,753</u>	<u>\$ 2,066</u>	<u>\$ 21,819</u>

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

7. Post-Employment Benefits Other than Pensions

Templeton Municipal Water Department implemented GASB 45 Other Post Employment Benefits ("OPEB") concurrently with the Town's implementation during the year ended June 30, 2010. The Department participates in the town-wide health plan which provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan.

At July 1, 2011, the date of the latest actuarial report, the Department's membership in the plan consisted of the following:

	Medical/Life	Dental
Current retirees, beneficiaries, and dependents	1	1
Current active employees	5	5
Total	6	6

Funding Policy

The Department funds the cost of providing benefits on a pay-as-you-go basis by paying the annual insurance premiums charged to the Department by the Town of Templeton. Retired plan members and beneficiaries currently receiving benefits are required to contribute 25% of the premium cost for their post-retirement medical costs and life insurance costs. The contribution requirements of plan members and the Town are established and may be amended through Town ordinances. Neither the town nor the Department has established a Trust to accept funding for OPEB liabilities.

Annual OPEB Costs and Net OPEB Obligation

The Department's annual other post employment benefit cost ("expense") is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of generally accepted accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the annual OPEB costs for the year, the amount actually contributed to the plan, and changes in net OPEB obligation are summarized in the following table:

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

7. Post-Employment Benefits Other than Pensions (Continued)

Annual OPEB Costs and Net OPEB Obligation (Continued)

Normal cost	\$ 22,450
Amortization of unfunded actuarial accrued liability	35,246
Annual OPEB cost	57,696
Contributions made	(13,475)
Increase in net OPEB obligation	44,221
Net OPEB obligation, beginning of year	76,543
Net OPEB obligation, end of year	\$ 120,764
Percentage of annual OPEB cost contributed	23.36%

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2012 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 37,961	\$ -	0%	\$ 37,961
6/30/2011	\$ 41,807	\$ 3,225	8%	\$ 76,543
6/30/2012	\$ 57,696	\$ 13,475	23%	\$ 120,764

Funding Status and Funding Progress

As of June 30, 2012, the plan was unfunded. An actuarial valuation was completed as of July 1, 2011, projecting the accrued liability for benefits at \$603,401. There are no assets in the plan, and the unfunded actuarial accrued liability (UAAL) is projected at \$603,401. The covered payroll of the Department (annual payroll of active employees covered by the plan) was \$241,702, and the ratio of the UAAL to the covered payroll was 249.6%.

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

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

7. Post-Employment Benefits Other than Pensions (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, actuarial liabilities were determined using the projected unit cost method. The actuarial methods and assumptions included a 4% rate of return and an annual health care cost rate trend of 8% initially, graded to 5% after four years. Cost rate trend for dental benefits is projected at 7% initially, graded to 5% after four years. Both rates included a 2.5% general inflation assumption. The UAAL is being amortized over 28 years at a level dollar amount. The remaining amortization period at July 1, 2011, is 28 years.

Required Supplementary Information

Town of Templeton, Massachusetts, Municipal Water Department

Other Post-Employment Benefit Plan Required Supplementary Information June 30, 2012 and 2011

Schedule of Funding Progress

Actuarial Valuation Date <u>Projected to</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Payroll
6/30/2010	\$ -	\$ 270,093	\$ 270,093	0.00%	\$ 282,176	95.7%
6/30/2011	\$ -	\$ 492,797	\$ 492,797	0.00%	\$ 287,034	171.7%
6/30/2012	\$ -	\$ 603,401	\$ 603,401	0.00%	\$ 241,702	249.6%

Schedule of Actuarial Methods and Assumptions

Actuarial methods:

Valuation date	07/01/11
Actuarial cost method	Projected unit credit
Amortization method	Level dollar amount over 30 years
Remaining amortization period	28 years as of July 1, 2011

Actuarial assumptions:

Investment rate of return	4.00%
Inflation rate	2.50%
Projected salary increases	3.00%
Medical/drug cost trend rate	8% decreasing to 5% in 2015
Dental cost trend rate	7% decreasing to 5% in 2015

Plan membership:

	<u>Medical/Life</u>	<u>Dental</u>
Current retirees, beneficiaries, and dependents	1	1
Current active members	<u>5</u>	<u>5</u>
Total	<u>6</u>	<u>6</u>

Town of Templeton, Massachusetts, Municipal Water Department

Notes to Required Supplementary Information For the Years Ended June 30, 2012 and 2011

1. The Department participates in the town-sponsored single employer defined benefit health plan which provides lifetime health care and life insurance benefits for eligible retirees and their spouses through the Town of Templeton health plan, which covers both active and retired members.

The Department currently finances its other post-employment benefits ("OPEB") on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Department has recorded its OPEB cost equal to the actuarially determined annual required contribution ("ARC") which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The schedule of funding progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The schedule of actuarial methods and assumptions presents factors that significantly affect the identification of trends in the amounts reported.

Other Supplementary Information

Town of Templeton, Massachusetts, Municipal Water Department

Schedule of Cost of Plant and Accumulated Depreciation

June 30, 2012

	Cost 7/1/2011	Net Cost Property Added 2012	Net Cost Property Disposed of 2012	Cost 6/30/12	Accumulated Depreciation 7/1/2011	Depreciation 2012	Reversed Depreciation 2012	Accumulated Depreciation 6/30/12	Book Value 6/30/12
Plant									
Structures and improvements	\$ 3,335,417	\$ 7,157	\$ -	\$ 3,342,574	\$ 429,771	\$ 55,588	\$ -	\$ 485,359	\$ 2,857,215
Wells and springs	100,605	-	-	100,605	23,377	2,012	-	25,389	75,216
Supply mains	156,527	-	-	156,527	15,044	3,131	-	18,175	138,352
Pumping equipment	290,634	-	-	290,634	90,366	9,688	-	100,054	190,580
Water treatment equipment	8,158	-	-	8,158	3,306	1,632	-	4,938	3,220
Distribution reservoirs and standpipes	329,647	-	-	329,647	83,958	6,654	-	90,612	239,035
Transmission and distributions mains	2,750,572	29	-	2,750,601	511,841	54,950	-	566,791	2,183,810
Services	245,865	1,923	-	247,788	33,586	4,917	-	38,503	209,285
Meters and installations	444,895	8,764	(2,847)	450,812	124,644	14,830	(1,249)	138,225	312,587
Hydrants	195,282	-	-	195,282	28,867	3,906	-	32,773	162,509
Miscellaneous plant	3,545	245	-	3,790	1,116	354	-	1,470	2,320
Laboratory equipment	5,990	-	-	5,990	5,439	828	-	6,267	(277)
Office equipment	7,828	-	-	7,828	8,731	1,544	-	10,277	(2,449)
Transportation equipment (a)	187,406	-	4,899	192,305	114,618	18,752	4,899	138,269	54,036
Stores equipment	4,552	-	-	4,552	2,203	275	-	2,478	2,074
Tools, shop, garage equipment	20,520	436	-	20,956	12,399	2,003	-	14,402	6,554
Power operated equipment	15,078	-	-	15,078	14,238	1,508	-	15,746	(668)
Communication equipment	252,258	197	-	252,455	103,370	12,613	-	115,983	136,472
Miscellaneous equipment	2,570	-	-	2,570	1,227	257	-	1,484	1,086
Total plant in service	<u>\$ 8,357,349</u>	<u>\$ 18,751</u>	<u>\$ 2,052</u>	<u>\$ 8,378,152</u>	<u>\$ 1,608,102</u>	<u>\$ 195,442</u>	<u>\$ 3,650</u>	<u>\$ 1,807,195</u>	<u>\$ 6,570,957</u>

(a) net transfer of fully depreciated trucks from Light Plant (\$17,371) and to Highway Department (\$12,472)

Town of Templeton, Massachusetts, Municipal Water Department

**Schedules of Operating Expenses
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating expenses		
Chemical and water testing expenses	\$ 37,004	\$ 49,818
Electricity	78,308	81,240
Insurance	23,545	20,752
Materials and supplies	17,272	26,726
Miscellaneous	10,684	8,840
Office expense	14,041	10,475
Outside services	15,668	13,326
Salaries and benefits	336,378	322,546
Transportation	12,745	13,663
	<u> </u>	<u> </u>
Total operating expenses	<u>\$ 545,645</u>	<u>\$ 547,386</u>