

CITY OF NORTH ADAMS, MASSACHUSETTS

REPORT ON THE EXAMINATION
OF BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2012

CITY OF NORTH ADAMS, MASSACHUSETTS TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT

1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS

3-8

BASIC FINANCIAL STATEMENTS:

Government-Wide Financial Statements:

Statement of Net Assets

9

Statement of Activities

10

Fund Financial Statements:

Balance Sheet - Governmental Funds

11

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds

12

Reconciliation of the Governmental Funds Balance Sheet Total Fund
Balances to the Statement of Net Assets

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 Expenditures - Budgetary Basis - (Non-GAAP) -
Budget and Actual - General Fund

15

Reconciliation of the Revenues and Expenditures from Budgetary Basis to
GAAP Basis

16

Statement of Fiduciary Net Assets - Fiduciary Funds

17

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

18

Notes to the Financial Statements

19-42

SUPPLEMENTARY SCHEDULES

Governmental Funds by Fund Type:

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Non-major Governmental Funds 43-44

Schedule of Real Estate and Personal Property Taxes 45

Schedule of Motor Vehicle Excise Taxes 46

Schedule of Tax Liens 47

Independent Auditor's Report

To the Honorable Mayor
City of North Adams, Massachusetts

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

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

The financial statements of the North Adams Contributory Retirement System have not been audited and we were not engaged to audit the North Adams Contributory Retirement System as part of the audit of the City's basic financial statements. The North Adams Contributory Retirement System financial activities are included in the City's basic financial statements as a blended component unit in the fiduciary funds and represent 99.02 percent and 99.9 percent of the net assets and revenues, respectively, of the City's aggregate fiduciary funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the North Adams Contributory Retirement System's financial statements been audited, the financial statements referred to previously present fairly, in all material respects, the financial position of the blended component unit for the City of North Adams, Massachusetts as of June 30, 2012 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated January 24, 2013 on our consideration of the City of North Adams, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part

of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, appearing on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Adams, Massachusetts's financial statements as a whole. The Supplementary Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Schedules are the responsibility of management and were derived from and relate 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 financial 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.

Scanlon & Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of North Adams, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

- The City's assets exceeded its liabilities by \$66,216,507 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$69,301,056 or a decrease of \$3,084,549 (4%).
- At the close of the current fiscal year, the City's total governmental funds reported total ending fund balance of \$3,759,249 this year, a decrease of \$1,209,868 (24%).
- The General Fund's total fund balance decreased \$958,842 (46%) to \$1,132,173. The ending General fund balance is 3% of revenues and other sources and 3% of expenditures and other uses.
- Total liabilities of the City increased by \$1,364,545 (5%) to \$30,153,978 during the fiscal year. This was mainly attributed to an increase in the OPEB liability of \$2,703,032, a net increase in bond anticipation notes of \$911,467 and the retirement of loans and bonds for (\$1,825,677).

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, airport, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, interest, and state assessments. The City does not have any functions classified as business-type activities.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows 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 financial 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 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 decision. 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*.

The City of North Adams adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

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

Financial Highlights
Statement of Net Assets Highlights

	Governmental Activities		
	2012	2011	Change
Assets:			
Current assets	\$ 13,673,499	\$ 13,265,604	\$ 407,895
Noncurrent assets (excluding capital assets)	2,346,947	3,194,961	(848,014)
Capital assets	80,350,039	81,629,924	(1,279,885)
Total assets	96,370,485	98,090,489	(1,720,004)
Liabilities:			
Current liabilities (excluding debt)	3,311,231	3,388,004	(76,773)
Noncurrent liabilities (excluding debt)	393,461	362,388	31,073
OPEB obligation payable	12,425,582	9,722,550	2,703,032
Current debt	3,668,270	2,925,380	742,890
Noncurrent debt	10,355,434	12,391,111	(2,035,677)
Total liabilities	30,153,978	28,789,433	1,364,545
Net Assets:			
Capital assets net of related debt	69,521,295	70,363,430	(842,135)
Restricted	4,958,941	4,215,119	743,822
Unrestricted	(8,263,729)	(5,277,493)	(2,986,236)
Total net assets	\$ 66,216,507	\$ 69,301,056	\$ (3,084,549)

Financial Highlights
Statement of Activities Highlights

	Governmental Activities		
	2012	2011	Change
Program Revenues:			
Charges for services	\$ 6,428,581	\$ 6,490,026	\$ (61,445)
Operating grants and contributions	25,418,271	26,105,877	(687,606)
Capital grants and contributions	2,644,986	5,593,577	(2,948,591)
General Revenues:			
Property taxes	13,246,336	12,586,684	659,652
Motor vehicle and other taxes	918,968	924,183	(5,215)
Hotel room occupancy taxes	340,196	321,551	18,645
Penalties and interest on taxes	136,346	170,297	(33,951)
Nonrestricted grants	3,887,060	3,945,937	
Unrestricted investment income	17,322	37,248	
Miscellaneous	18,993	30,844	(11,851)
Gain on sale of tax foreclosures	-	100,840	(100,840)
Total revenues	53,057,059	56,307,064	(3,171,202)
Expenses:			
General government	3,034,688	3,564,764	(530,076)
Airport	609,920	147,398	462,522
Public safety	4,329,212	4,426,323	(97,111)
Public works	6,329,459	5,746,660	582,799
Education	22,331,012	22,601,814	(270,802)
Health and human services	935,076	763,410	171,666
Culture and recreation	1,322,023	1,231,589	90,434
Employee benefits and insurance	14,045,574	13,692,853	352,721
State assessments	2,545,560	2,665,939	(120,379)
Interest	659,084	662,028	(2,944)
Total expenses	56,141,608	55,502,778	638,830
Change in net assets	(3,084,549)	804,286	(3,810,032)
Net assets - beginning of year	69,301,056	68,496,770	804,286
Net assets - end of year	\$ 66,216,507	\$ 69,301,056	\$ (3,005,746)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$66,216,507 at the close of fiscal year 2012.

Net assets of \$69,521,295 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$4,958,941 represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$8,263,729) may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted governmental activities resulted in a negative balance of as a result of the accrual of the OPEB liability obligation that is required under GASB to be recognized in the City's financial statements. The liability for OPEB as presented on the statement of net assets is \$12,425,582.

At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net assets for its governmental activities.

The governmental activities net assets decreased by \$3,084,549 during the current fiscal year. In the prior year governmental activities net assets increase \$804,286. The key elements of the decrease in net assets for fiscal year 2012 were an increase in OPEB expense \$2,703,032 and an increase in bond anticipation notes \$911,467.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting 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 \$3,759,249 a decrease of \$1,209,868 (24%) in comparison with the prior year.

Breakdown of the governmental fund balances are as follows:

- Restricted fund balance - \$3,376,632
- Committed fund balance - \$367,781
- Assigned fund balance - \$237,389
- Unassigned fund balance – (\$222,553)

At the end of the fiscal year, the General Fund reported a fund balance of \$1,132,173 decreasing \$958,842 (46%) from the prior year. Of the \$1,132,173, the unassigned amount is \$894,784 (79%) and the assigned amount is \$237,389 (21%). General fund revenues were \$765,289 (2%) more than the prior fiscal year and expenditures increased by \$1,162,603 (3%).

The main components of the increase from the prior year in general fund revenues were as follows:

- Property taxes increased \$248,515 (2%).
- Intergovernmental receipts increased \$178,891 (1%).
- On behalf receipts increasing \$297,173 (7%).

The major changes with the general fund expenditures from the prior fiscal year were as follows:

- Decrease in public safety expenditures of \$237,860 (7%).
- Increase in health and human services expenditures \$177,167 (25%).
- Increase in employees benefits and insurance expenditures of \$1,131,551 (11%) – Major component was the closing of the health insurance trust balance reducing the expenses for the prior fiscal year.
- Increase in principal on debt service expenditures of \$206,239 (12%).
- Decrease in interest on debt service expenditures of \$52,671 (10%).

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2012 was \$39,587,871. This was a decrease of \$557,649 (1%) over the previous year's budget.

There was an increase between the original budget and the final budget of \$109,710. This change was mainly attributed to the following:

- An increase in police accounts of \$220,543.
- A decrease in education accounts of \$250,000.
- An increase in veterans services of \$181,386.
- Various other budget operating line items of \$42,219.

Of the \$494,170 variance between the General fund budget and actual expenditures, \$237,389 has been carried over to fiscal year 2013.

There are negative variances in the City's revenues. A major contributor to this was the economic downturn in the economy. Among the negative variances were charges for services – user charges (\$142,905), property taxes (\$45,815), intergovernmental (\$180,533), a result of lower state assistance, and interest on investments (\$14,701). Overall the total revenues had a deficit of (\$169,261).

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of June 30, 2012 amounts to \$80,350,039.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

Major capital events during the current fiscal year in the governmental type funds included the following:

- Skating rink improvements for \$76,300.
- Airport runway/taxiway improvements for \$1,250,427.
- Airport snowblower truck for \$300,790.
- Road and sidewalk improvements for \$115,242.
- Department of public works vehicles for \$171,843.
- School solar panels for \$79,681.
- Armory improvements for \$457,412.
- Library heat pumps for \$80,308.
- Water main repairs for \$31,259.

Debt. The City's governmental outstanding long-term notes and debt as of June 30, 2012 totaled \$12,391,110, of which \$10,087,110 is for municipal purpose loans and \$2,304,000 is for Intergovernmental Loan-Section 108 HUD.

The City also has bond anticipation notes outstanding as of June 30, 2012 in the amount of \$1,632,594.

Please refer to notes 3C, 3E, and 3F for further discussion of the major capital assets and debt activity.

Fiscal Year 2013 Budget

The City of North Adams City Council votes a budget for the next fiscal year at a City Council meeting before the end of the fiscal year. The financial statements for June 30, 2012 do not reflect the fiscal year 2013 City Council actions. The City Council meeting on June 12, 2012 authorized a fiscal year 2013 operating and capital budget as follows:

Budget:	
Raise and Appropriate (Taxation and Estimated Revenue)	<u>\$ 36,278,824</u>

Requests for Information

This financial report is designed to provide a general overview of the City of North Adams' 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 the City Auditor, City Hall, 10 Main Street, North Adams, Massachusetts, 01247.

**CITY OF NORTH ADAMS, MASSACHUSETTS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Primary Government Governmental Activities
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 6,481,736
Investments	326,101
Receivables, net of allowance for uncollectibles:	
Property Taxes	366,638
Tax Liens	1,797,511
Excise Taxes	198,101
User Charges	499,752
Departmental	173,934
Loans	277,971
Due from Other Governments	3,301,075
Tax Foreclosures	250,680
Total current assets	13,673,499
NONCURRENT:	
Receivables, net of allowance for uncollectibles:	
Loans	2,094,000
Due from Other Governments	252,947
Capital Assets, net of accumulated Depreciation	
Nondepreciable	21,749,129
Depreciable	58,600,910
Total noncurrent assets	82,696,986
Total Assets	96,370,485
LIABILITIES	
CURRENT:	
Warrants Payable	656,737
Accounts Payable	350,211
Accrued Payroll	1,390,480
Payroll Withholdings	197,933
Tax Refund Payable	64,000
Accrued Interest	280,993
Other	36,423
Compensated Absences	334,454
Bond Anticipation Note Payable	1,632,594
Intergovernmental - Loan Payable	210,000
Bonds Payable	1,825,676
Total current liabilities	6,979,501
NONCURRENT:	
Compensated Absences	393,461
OPEB Obligation Payable	12,425,582
Intergovernmental - Loan Payable	2,094,000
Bonds Payable	8,261,434
Total noncurrent liabilities	23,174,477
Total Liabilities	30,153,978
NET ASSETS:	
Invested in Capital Assets, net of related debt	69,521,295
Restricted for:	
Capital Projects	552,162
Federal & State Grants	1,474,782
Permanent Funds	441,118
Other Purposes	2,490,879
Unrestricted	(8,263,729)
Total Net Assets	\$ 66,216,507

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTH ADAMS, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Government
						Governmental Activities
Primary Government:						
Governmental Activities:						
General Government	\$ 3,034,688	\$ 364,859	\$ 963,016	\$ 79,681	\$ (1,627,132)	
Airport	609,920	43,852	19	1,507,255	941,206	
Public Safety	4,329,212	507,402	497,182	-	(3,324,628)	
Public Works	6,329,459	3,749,751	16,147	1,058,050	(1,505,511)	
Education	22,331,012	1,178,613	18,359,627	-	(2,792,772)	
Health and Human Services	935,076	147,522	419,410	-	(368,144)	
Culture and Recreation	1,322,023	436,582	113,137	-	(772,304)	
Employee Benefits and Insurance	14,045,574	-	4,832,409	-	(9,213,165)	
State Assessments	2,545,560	-	-	-	(2,545,560)	
Interest	659,084	-	217,324	-	(441,760)	
Total Primary Government	\$ 56,141,608	\$ 6,428,581	\$ 25,418,271	\$ 2,644,986	\$ (21,649,770)	
General Revenues:						
Property Taxes					13,246,336	
Motor vehicle taxes					918,968	
Hotel room occupancy & Meal taxes					340,196	
Penalties & Interest on Taxes					136,346	
Grants & Contributions not restricted to specific programs					3,887,060	
Unrestricted Investment Income					17,322	
Miscellaneous					18,993	
Total General Revenues					18,565,221	
Change in Net Assets					(3,084,549)	
Net Assets:						
Beginning of year					69,301,056	
End of year					66,216,507	

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTH ADAMS, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,071,497	\$ 3,410,239	\$ 6,481,736
Investments	-	326,101	326,101
Receivables, net of allowance for uncollectibles:			
Property Taxes	366,638	-	366,638
Tax Liens	1,797,511	-	1,797,511
Excise Taxes	198,101	-	198,101
User Charges	499,752	-	499,752
Departmental	135,891	38,043	173,934
Loans	-	2,371,971	2,371,971
Due from Other Governments	1,125,321	2,117,693	3,243,014
Tax Foreclosures	250,680	-	250,680
Total Assets	\$ 7,445,391	\$ 8,264,047	\$ 15,709,438
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Warrants Payable	\$ 317,682	\$ 339,055	\$ 656,737
Accounts Payable	76,064	274,147	350,211
Accrued Payroll	1,390,480	-	1,390,480
Employee Withholdings	197,933	-	197,933
Tax Refund Payable	64,000	-	64,000
Other	36,423	-	36,423
Deferred Revenue:			
Property Taxes	321,638	-	321,638
Other	3,908,998	3,391,175	7,300,173
Bond Anticipation Note Payable	-	1,632,594	1,632,594
Total Liabilities	6,313,218	5,636,971	11,950,189
Fund Balance:			
Restricted	-	3,376,632	3,376,632
Committed	-	367,781	367,781
Assigned	237,389	-	237,389
Unassigned	894,784	(1,117,337)	(222,553)
Total Fund Balance	1,132,173	2,627,076	3,759,249
Total Liabilities and Fund Balance	\$ 7,445,391	\$ 8,264,047	\$ 15,709,438

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property Taxes	\$ 12,894,018	\$ -	\$ 12,894,018
Intergovernmental	18,570,722	8,830,082	27,400,804
Excise Taxes	1,279,926	-	1,279,926
Charges for Services - User Charges	3,452,095	1,226,404	4,678,499
Licenses, Permits, Fees	1,736,421	-	1,736,421
Other	-	399,171	399,171
Interest on Delinquent Taxes	136,346	-	136,346
Investment Income	17,322	4,859	22,181
Intergovernmental - "On-behalf" Payments	4,614,262	-	4,614,262
Total Revenues	42,701,112	10,460,516	53,161,628
Expenditures:			
Current:			
General Government	2,341,639	1,027,235	3,368,874
Airport	-	1,872,831	1,872,831
Public Safety	3,267,254	753,137	4,020,391
Public Works	3,883,388	1,029,667	4,913,055
Education	16,437,370	5,026,538	21,463,908
Health and Human Services	891,757	22,910	914,667
Culture and Recreation	532,588	557,157	1,089,745
Employee Benefits and Insurance	11,342,542	-	11,342,542
State Assessments	2,545,560	-	2,545,560
Debt Service:			
Principal	1,965,884	238,370	2,204,254
Interest	499,981	135,688	635,669
Total Expenditures	43,707,963	10,663,533	54,371,496
Excess of Revenues Over (Under) Expenditures	(1,006,851)	(203,017)	(1,209,868)
Other Financing Sources (Uses):			
Operating Transfers In	78,009	30,000	108,009
Operating Transfers Out	(30,000)	(78,009)	(108,009)
Total Other Financing Sources (Uses)	48,009	(48,009)	-
Net Change in Fund Balances	(958,842)	(251,026)	(1,209,868)
Fund Balances, Beginning of Year	2,091,015	2,878,102	4,969,117
Fund Balances, End of Year	\$ 1,132,173	\$ 2,627,076	\$ 3,759,249

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
For the Year Ended June 30, 2012

Total Governmental Fund Balances		\$	3,759,249
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.			80,350,039
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.			7,932,819
Long Term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds:			
Bonds Payable	\$	(10,087,110)	
Intergovernmental Loan Payable		(2,304,000)	
Other Post Employment Benefits Payable		(12,425,582)	
Compensated Absences		(727,915)	(25,544,607)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds, interest is not reported until due.			(280,993)
Net Assets of Governmental Activities		\$	66,216,507

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (1,209,868)

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 are reported as depreciation expense:

Capital Outlay Purchases	\$ 2,563,260	
Depreciation	(3,843,145)	(1,279,885)

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, WPAT principal subsidy and Mass MoCA Receivable.

(104,569)

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:

Repayment of Debt Principal	2,204,254
-----------------------------	-----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Net Change in Compensated Absences	31,966	
Net Change in Other Post Employment Benefits	(2,703,032)	
Net Change in Accrued Interest on Long-Term Debt	(23,415)	(2,694,481)

Change in Net Assets of Governmental Activities \$ (3,084,549)

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTH ADAMS, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGETARY BASIS - (NON-GAAP) -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Budgetary Basis		
Revenues:					
Property Taxes	\$ 13,644,248	\$ 13,015,733	\$ 12,969,918	\$ -	\$ (45,815)
Intergovernmental	18,751,255	18,751,255	18,570,722	-	(180,533)
Excise and Other Taxes	1,280,000	1,280,000	1,279,926	-	(74)
Charges for Services - User Charges	3,595,000	3,595,000	3,452,095	-	(142,905)
Licenses, Permits, Fees	1,548,000	1,548,000	1,736,421	-	188,421
Interest on Delinquent Taxes	110,000	110,000	136,346	-	26,346
Interest on Investments	30,000	30,000	15,299	-	(14,701)
Total Revenues	38,958,503	38,329,988	38,160,727	-	(169,261)
Expenditures:					
Current:					
General Government	2,403,911	2,412,399	2,341,639	63,184	7,576
Public Safety	3,057,511	3,269,480	3,267,254	1,098	1,128
Public Works	3,873,818	3,901,219	3,883,388	11,569	6,262
Education	16,874,097	16,624,097	16,437,370	160,138	26,589
Health and Human Services	715,994	891,966	891,757	-	209
Culture and Recreation	543,644	533,988	532,588	1,400	-
Employee Benefits and Insurance	6,824,014	6,808,387	6,809,366	-	(979)
State Assessments	2,761,554	2,761,554	2,545,560	-	215,994
Debt Service:					
Principal	1,953,002	1,921,278	1,921,278	-	-
Interest	470,616	463,503	463,501	-	2
Total Expenditures	39,478,161	39,587,871	39,093,701	237,389	256,781
Excess of Revenues Over (Under) Expenditures	(519,658)	(1,257,883)	(932,974)	(237,389)	87,520
Other Financing Sources (Uses):					
Operating Transfers In (Out)	-	1,311	16,959	-	15,648
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(519,658)	(1,256,572)	(916,015)	(237,389)	103,168
Budgetary Fund Balance - Beginning of Year	1,718,126	1,718,126	1,718,126	-	-
Budgetary Fund Balance - End of Year	\$ 1,198,468	\$ 461,554	\$ 802,111	\$ (237,389)	\$ 103,168

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2012

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 38,160,727	\$ 39,093,701
<i>Adjustments:</i>		
Activity for Stabilization Fund Recorded in the General Fund for GAAP Purposes	2,023	-
Net Decrease in Revenue from recording Refund Taxes Payable	(64,000)	-
Recognition of Intergovernmental Revenue - "on behalf payments"	4,614,262	-
Recognition of Expenditures - "on behalf payments"	-	4,614,262
Net Decrease in Revenue from Recording 60-Day Receipts	(11,900)	-
Reported on a GAAP Basis	\$ 42,701,112	\$ 43,707,963

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

	(UNAUDITED)		
	North Adams Employees Retirement System Pension Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ 48,491	\$ 282,534	\$ 119,601
Investments	40,534,840	-	-
Accrued Interest and Dividends	88,134	-	-
Accounts Receivable	104,288	-	-
Total Assets	40,775,753	282,534	119,601
LIABILITIES			
Warrants Payable	15,234	-	14,944
Due to Others	-	-	13,566
Due to Student Groups	-	-	91,091
Total Liabilities	15,234	-	119,601
NET ASSETS:			
Held in Trust for Pension Benefits and Other Purposes	\$ 40,760,519	\$ 282,534	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTH ADAMS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	(UNAUDITED)	
	North Adams Employees Retirement System Pension	
	Trust Fund (as of December 31, 2011)	Private Purpose Trust Funds
Additions		
Contributions:		
Employers	\$ 2,301,087	\$ -
Plan Members	929,105	-
Transfers/Reimbursements from Other Systems	28,024	-
Commonwealth of Massachusetts - COLA	111,951	-
Miscellaneous	427	528
Total Contributions	3,370,594	528
Investment Income:		
Interest & Dividends	994,218	6,039
Net Change in Fair Value of Investments	537,714	-
Total Investment Earnings	1,531,932	6,039
Less Investment Expense	(184,212)	-
Net Investment Earnings	1,347,720	6,039
Total Additions	4,718,314	6,567
Deductions:		
Benefit Payments to Plan Members and Beneficiaries	3,975,760	-
Refunds to Members	96,170	-
Transfers to Other Systems	136,727	-
Educational Scholarships	-	2,656
General Expenses	86,199	-
Total Deductions	4,294,856	2,656
Change in Net Assets	423,458	3,911
Net Assets at Beginning of Year	40,337,061	278,623
Net Assets at End of Year	\$ 40,760,519	\$ 282,534

The Notes to the Financial Statements are an integral part of this Statement.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of North Adams, Massachusetts was created under the laws of the State of Massachusetts in 1895. The City operates under an elected Mayor and nine member Council form of government.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2012, it was determined that no entities met the required GASB-14 and GASB-39 criteria for component units.

Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the fiduciary funds:

The North Adams Contributory Retirement System (the System) was established to provide retirement benefits to City employees, and their beneficiaries. The System is governed by a five-member board comprised of two members elected by the System's participants, two member appointed by the governing authority and one member appointed by the other Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 85 Main Street, North Adams, Massachusetts, 01247.

The City is responsible for electing/appointing the governing board and/or committee members of the North Adams Housing Authority, Northern Berkshire Vocational Regional School and Hoosac Water Quality District. These related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond the City electing/appointing the board and/or committee members and does not have oversight responsibility. Audited financial statements are available from the respective organization. A description of the related organizations are as follows:

North Adams Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income families, the elderly and handicapped. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The City has no significant influence over management, budget or policies of the authority.

Northern Berkshire Vocational Regional School District - A regional school district made up of seven communities to serve and provide a learning environment in specific career areas. The regional school district is a separate entity under the Commonwealth of Massachusetts. The City elects four district committee members and appoints one member from the City's school

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

committee for its representation. The District is responsible for both the operating and capital costs related to the school and operates independently from the City.

Hoosac Water Quality District - A regional district for the purpose of building, maintaining and operating a system of sewerage collection and disposal system for the City of North Adams, Town of Williamstown and Town of Clarksburg. The District is administered by the District Commission, which is composed of four members, two of which are appointed by the North Adams City Council. The district is responsible for the operating and capital costs related to the district and operates independently from the City.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements (e.g., statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

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

Fund financial statements

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

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustments necessary to reconcile ending net assets and the change in net assets.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds),

and

- If the total assets, liabilities, revenues or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

Fiduciary funds are reported by fund type.

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

Government-wide financial statements

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

Fund financial statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under the modified accrual basis concept, revenues are recognized as soon as they are both measurable and available. Under the modified accrual basis of accounting revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The City reports the following major governmental fund:

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.

Additionally, the City reports the following fund types:

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

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

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings may be used for purposes that support the governmental programs.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The City maintains a cash and investment pool 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 cash equivalents".

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

E. Investments

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

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Investments in the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments.

All investments are carried at market value.

F. Receivables

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

Property Taxes, Tax Foreclosures and Tax Liens

Property taxes are based on assessments as of January 1, 2011 and include betterments, special assessments and liens. Taxes are used to finance the operations of the City for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The City has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the City sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The City mailed preliminary tax bills for the fiscal year 2012 on June 30, 2011 that were due on August 2, 2011 and November 1, 2011 and actual bills on December 27, 2011 that were due on February 1, 2012 and May 1, 2012.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a City. The legal levy limit under Proposition 2 1/2 for fiscal year 2012 is \$13,244,834.

The total amount raised by taxation was \$13,241,151.

The allowance for uncollectible accounts is estimated based upon historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise. Motor vehicle excise taxes are assessed annually for each vehicle registered in the City, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

The tax calculation is the fair market value of the vehicle multiplied by the \$25 per \$1,000 of valuation.

The allowance for uncollectible accounts is estimated based upon historical trends and specific account analysis.

User Charges

User charges primarily consist of water and sewer. The user charges are billed monthly for commercial accounts and billed quarterly for residential accounts. The bills are based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed each year and are included as a lien on the property owner's tax bill.

The allowance for uncollectible accounts is estimated based upon historical trends and specific account analysis.

Departmental

Departmental receivables consist primarily of parking tickets, landfill fees, demolition liens, rents, trash bags for outside vendors, police outside duty and other miscellaneous departmental billings.

The allowance for uncollectible accounts is estimated based upon historical trends and specific account analysis.

Loans

The Community Development Block Grant office administers loan programs that provide housing assistance to residents of the City and commercial loans to businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Due from Other Governments

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

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value.

All purchase of equipment in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

<u>Capital Asset Type</u>	<u>Years</u>
Buildings and improvements	10-40
Machinery, equipment and vehicles	3-15
Infrastructure	20-50

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

H. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities.

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Revenue

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

J. Net Assets and Fund Balances

In the Government-Wide financial statements, the difference between the City's total assets and total liabilities represents net assets. Net assets display three components – invested in capital assets, net of related debt; restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net assets represent the net assets available for future operations.

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

- "Capital projects" represents amounts restricted for capital purposes.
- "Federal and state grants" represents amounts restricted by the federal and state government for various programs.
- "Permanent funds" represents amounts held in trust for which the expenditures are restricted by various trust agreements.
- "Other purposes" represents restrictions placed on assets from outside parties.

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, which is the City Council and can be modified or rescinded only by vote of the City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned fund balance. This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. Department heads and City board/committees have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

K. Long-term Debt

Long-term debt is reported as liabilities in the government-wide statement of net assets.

The face amount of governmental funds long-term debt is reported as other financing sources.

L. Compensated Absences

The City grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay. The Liability for compensated absences is reported in the government-wide statements.

M. Use of Estimates

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

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the City's General Fund. Although legislative approval is required for the acceptance of grants, capital projects and borrowing authorizations, annual budgets are not prepared for any other fund; therefore comparison of budget to actual is only presented for the General Fund.

The City must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non property tax revenues estimated to be received, including available funds. Supplemental appropriations may be made from available funds after the setting of the tax rate. Appropriations may be transferred between departments with City Council approval.

The City follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1st to the City Council.

The budget is legally enacted by vote of the City Council prior to the end of the fiscal year.

Throughout the fiscal year any available funds may be appropriated by City Council vote.

Massachusetts law requires cities and towns to provide a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

For fiscal year 2012, the City incurred a final budget deficit of \$1,256,572 for the General Fund.

The City voted from the following sources to fund the deficit budget during the fiscal year:

Unreserved fund balance:	
Free cash votes	\$ 736,915
Prior years reserved for encumbrance	<u>519,657</u>
	<u><u>\$ 1,256,572</u></u>

B. Deficit Fund Balance

The following funds had a deficit at June 30, 2012 as measured by the balances of unreserved fund balance:

Capital project funds have a total deficit of \$1,084,128. These deficits will be eliminated upon the issuance of permanent debt and the receipts of grants.

The special revenue airport improvement funds have a total deficit of \$33,209. These deficits will be eliminated with receipts of grants.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

3. DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risks – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2012 were \$7,816,922. Of these, \$2,050,594 were exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

As of June 30, 2012, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1 to 5
Debt Securities:			
U. S. Governmental agencies	\$ 50,728	\$ -	\$ 50,728
Corporate bonds	93,566	-	93,566
Money market mutual fund	905	905	-
	<u>145,199</u>	<u>\$ 905</u>	<u>\$ 144,294</u>
Other Investments:			
Equity Mutual Funds	50,240		
Equity securities - domestic	130,662		
	<u>\$ 326,101</u>		

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$326,101 in investments, the government has a custodial credit risk exposure because the related securities are uninsured, unregistered and held by the City's brokerage firm, which is also the Counterparty to these securities. The City has no policy on custodial credit risk.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City's exposure to credit risk as of June 30, 2012 is as follows:

Related Debt Instruments	Moody's Quality Ratings				
	Fair Value	AA	A	BBB	Not Rated
Debt Securities:					
U. S. government agencies	\$ 50,728	\$ 50,728	\$ -	\$ -	\$ -
Corporate bonds	93,565	-	63,043	30,522	-
Money market mutual fund	906	-	-	-	906
	<u>\$ 145,199</u>	<u>\$ 50,728</u>	<u>\$ 63,043</u>	<u>\$ 30,522</u>	<u>\$ 906</u>

Concentration of Credit Risk

The City places no limit on the amount the City may invest in one issuer. More than 5 percent of the Town's investments are Federal Home Loan Bank amounting to 15.56% of the City's total investments.

B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 372,698	\$ (6,060)	\$ 366,638
Tax liens	1,797,511	-	1,797,511
Excise taxes	256,101	(58,000)	198,101
User Charges	503,345	(3,593)	499,752
Departmental	209,947	(36,013)	173,934
Loans	2,371,971	-	2,371,971
Due from other governments	3,243,014	-	3,243,014
Tax Foreclosures	250,680	-	250,680
	<u>\$ 9,005,267</u>	<u>\$ (103,666)</u>	<u>\$ 8,901,601</u>

The composition of amounts due from other governments as of June 30, 2012 for governmental funds is as follows:

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

General Fund:

Commonwealth of Massachusetts -

Department of Veteran Services:

Veterans benefits \$ 469,080

Massachusetts School Building Authority:

School Building Assistance 630,185

McCann Transportation:

Reimbursement 26,056 \$ 1,125,321

Nonmajor Governmental Funds:

U. S. Department of Agriculture -

School lunch 29,808

FEMA Irene Storm Damage NRCS RT grant 216,270

U. S. Department of Education -

School title grants 25,800

U. S. Department of Homeland Security:

FEMA Staffing for Adequate Fire and Emergency Response Grant 52,081

U. S. Department of Housing & Urban Development -

Community Development Block Grant and special projects 18,886

U. S. Department of Transportation -

Federal Aviation Administration 475,188

Federal Highway Administration 98,879

Commonwealth of Massachusetts -

Massachusetts Department of Elementary and

Secondary Education:

School lunch 412

School grants 26,217

Executive Office of Public Safety and Homeland Security:

Emergency 911 police grant 45,997

Hazardeous materials grant 1,667

Massachusetts School Building Authority:

Feasibility study 14,800

Massachusetts Department of Transportation:

Airport grants 58,974

Highway Department - Chapter 90 funds 1,052,714 2,117,693

\$ 3,243,014

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 all of June 30, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections. The amount accrued for 60-day receipts for property taxes is \$321,638.

Deferred revenue reported in the governmental funds are as follows:

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

General Fund:

Tax Liens/Foreclosures	\$ 2,048,191		
Excise Taxes	198,101		
User Charges	499,752		
Departmental	135,891		
Due from other governments	<u>1,027,063</u>	\$	3,908,998

Nonmajor Governmental Funds:

Departmental	20,123		
Loans	2,371,971		
Due from other governments	<u>999,081</u>	3,391,175	
		<u>\$</u>	<u>7,300,173</u>

C. Capital Assets

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 18,178,983	\$ -	\$ -	\$ 18,178,983
Construction in progress	12,900,273	1,784,139	(11,114,266)	3,570,146
Total capital assets not being depreciated	<u>31,079,256</u>	<u>1,784,139</u>	<u>(11,114,266)</u>	<u>21,749,129</u>
Capital assets being depreciated:				
Buildings and improvements	60,390,387	1,387,642	-	61,778,029
Machinery, equipment and vehicles	7,660,755	552,314	-	8,213,069
Infrastructure	<u>38,603,495</u>	<u>9,953,432</u>	<u>-</u>	<u>48,556,927</u>
Total capital assets being depreciated	<u>106,654,637</u>	<u>11,893,388</u>	<u>-</u>	<u>118,548,025</u>
Less accumulated depreciation for:				
Buildings	27,715,122	1,901,215	-	29,616,337
Machinery, equipment and other	5,545,465	615,808	-	6,161,273
Infrastructure	<u>22,843,382</u>	<u>1,326,123</u>	<u>-</u>	<u>24,169,505</u>
Total accumulated depreciation	<u>56,103,969</u>	<u>3,843,146</u>	<u>-</u>	<u>59,947,115</u>
Total capital assets being depreciated, net	<u>50,550,668</u>	<u>8,050,242</u>	<u>-</u>	<u>58,600,910</u>
Total governmental activities capital assets, net	<u>\$ 81,629,924</u>	<u>\$ 9,834,381</u>	<u>\$ (11,114,266)</u>	<u>\$ 80,350,039</u>

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

Governmental Activities:

General government	\$ 289,446
Airport	288,306
Public safety	305,034
Public works	1,748,379
Education	910,220
Culture and recreation	301,761
Total depreciation expense - governmental activities	<u>\$ 3,843,146</u>

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

D. Interfund Receivables, Payables and Transfers

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

Transfers Out:	Transfers In		Total
	General fund	Nonmajor governmental funds	
General fund	\$ -	\$ 30,000	\$ 30,000
Nonmajor governmental funds	78,009	-	78,009
Total transfers out	\$ 78,009	\$ 30,000	\$ 108,009

E. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the City is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type fund are as follows:

Purpose	Interest Rate	Final Maturity Date	Balance June 30, 2011	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2012
Bond anticipation notes:						
Athletic fields	1.20%	7/8/2011	\$ 183,332	\$ -	\$ 183,332	\$ -
Municipal purpose	1.09%	6/22/2012	537,795	-	537,795	-
Hurricane Irene Storm	0.59%	6/21/2013	-	500,000	-	500,000
Municipal purpose	0.53%	6/21/2013	-	1,132,594	-	1,132,594
			\$ 721,127	\$ 1,632,594	\$ 721,127	\$ 1,632,594

F. Long Term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for the governmental activities. General obligation bonds currently outstanding of the governmental type fund are as follows:

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2012
General Obligation Bonds:					
Inside Debt Limit:					
Streets and Sidewalks	2.00-3.00%	6/15/2011	9/1/2018	900,000	\$ 900,000
Greylock and Sullivan Roof	4.50-6.00%	12/1/2007	9/15/2007	673,000	390,000
Library	2.50%	7/9/2010	7/9/2013	466,666	310,000
Municipal Purpose Loan of 2011	2.00-4.00%	6/15/2011	6/15/2023	2,276,433	2,055,000
Outside Debt Limit:					
Brayton Elementary School	4.30-6.25%	3/1/1993	3/1/2013	12,192,000	600,000
Water	4.00-5.00%	7/1/2007	7/1/2018	6,115,000	4,530,000
Massachusetts Water Pollution Abatement Trust					
Inflow/Outflow Infiltration (1)	2.00%	2/1/2006	8/1/2023	360,907	266,598
Landfill Closing (1)	1.73%	11/1/1998	8/1/2018	2,253,000	884,700
Water Infiltration (1)	2.70%	2/1/2002	2/1/2017	495,789	150,812
Total Bonds Payable					<u>10,087,110</u>
MASS MoCA - Section 108 HUD (2)	4.48%	8/7/2003	8/1/2022	3,774,000	<u>2,304,000</u>
Total Governmental Type Debt					<u>\$ 12,391,110</u>

(1) Bonds were issued through Massachusetts Water Pollution Abatement Trust - Portion of Principal and Interest subsidized by Trust

(2) Bonds were issued through U.S. Department of Housing and Urban Development. Principal and Interest are reimbursed by a loan receivable from Massachusetts Museum of Contemporary Art, Inc.

Future Debt Service

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

Governmental Type Activities

Year	Principal	Interest	Total
2013	\$ 2,035,676	\$ 587,951	\$ 2,623,627
2014	1,509,052	440,278	1,949,330
2015	1,386,321	380,728	1,767,049
2016	1,416,247	316,932	1,733,179
2017	1,466,300	251,400	1,717,700
2018-2022	4,163,326	455,463	4,618,789
2023-2024	414,188	13,316	427,504
	<u>\$ 12,391,110</u>	<u>\$ 2,446,068</u>	<u>\$ 14,837,178</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$260,775 and interest costs of \$229,828 for three loans which the City has borrowed from MWPAT. The gross amount outstanding at June 30, 2012 for principal and interest combined for the three loans is \$1,621,532. The net repayments, including interest, are

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

scheduled to be \$1,135,876. The principal subsidies are guaranteed and therefore a \$260,775 intergovernmental receivable has been reported in the government-wide financial statements. Since the City is legally obligated for the total amount of the debt, such amounts for the gross principal have been recorded on the financial statements. The fiscal year 2012 principal and interest subsidies totaled \$44,606 and \$36,480, respectively.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2012, approximately \$659,939 of such assistance was received. Approximately \$659,939 will be received in future fiscal years. Of this amount, approximately \$29,754 represents reimbursement of long-term interest costs, and approximately \$630,185 represents reimbursement of approved construction costs. Accordingly, \$630,185 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements.

At June 30, 2012, the City carried \$2,304,000 of debt, issued in prior fiscal years, under the United States Department of Housing and Urban Development (HUD) section 108 Loan Guarantee Program. The purpose of the program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD's community Development Block Grant (CDBG) program. The loan proceeds from this program was used for the MASS MoCA project. Debt outstanding at the fiscal year-end is reported as intergovernmental loan payable on the Statement of Net Assets. Additionally, a receivable from the Massachusetts Museum of Contemporary Art, Inc. has been set up on the City's financial statements of which the proceeds are used to pay this loan obligation. Amounts received on the receivable and payments made on the loan are reported in the Community Development program income fund.

A summary of the changes in governmental activities long term debt during the year is as follows:

	Balance			Balance	Amounts Due
	June 30, 2011	Additions	Reductions	June 30, 2012	within One
					Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 10,613,099	\$ -	\$ 1,828,099	\$ 8,785,000	\$ 1,715,000
Massachusetts Water Pollution Abatement Bond	1,468,265	-	166,154	1,302,111	110,676
Intergovernmental loan - section 108	2,514,000	-	210,000	2,304,000	210,000
Compensated absences	759,881	71,587	103,553	727,915	334,454
OPEB obligation	9,722,550	2,703,032	-	12,425,582	-
Governmental activity Long-term liabilities	<u>\$ 25,077,795</u>	<u>\$ 2,774,619</u>	<u>\$ 2,307,806</u>	<u>\$ 25,544,608</u>	<u>\$ 2,370,130</u>

Advance Refunding – June 15, 2011

On June 15, 2011, the City issued \$900,000 of general obligation refunding bonds with an average interest rate of 2.23 percent to advance refund \$890,000 of outstanding bonds with an average interest rate of 6.38 percent. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the general obligation long-term debt account group. The advance refunding resulted in an economic gain of \$62,118.

Legal Debt Limit

**CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a City may authorize indebtedness up to a limit of 5 percent of the equalized valuation of the City. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The City's inside debt at June 30, 2012, totaled \$3,655,000.

In addition, the City is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit." The City's outside debt at June 30, 2012, totaled \$8,736,100.

The following is a computation of the legal debt limit as of June 30, 2012:

Equalized Valuation-Real Estate and Personal Property (2010)		\$	<u>758,305,300</u>
Debt Limit: 5 % of Equalized value		\$	37,915,265
Total Debt Outstanding:			
Governmental Activity Debt	\$	12,391,110	
Less: Debt Outside Debt Limit	(8,736,110)		<u>3,655,000</u>
Inside Debt Excess Borrowing Capacity at June 30, 2012		\$	<u>34,260,265</u>

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts, a City must authorize debt at a City Council meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or City Council votes to rescind the authorized debt.

Loan authorizations that have not been issued as of June 30, 2012 and are not reflected in the City's financial statements are as follows:

Description	Date of Council meeting	Amount
Feasibility study	10/28/2009	\$ 597,406
Infrastructure repairs due to Hurricane Irene damage	12/11/2011	<u>1,700,000</u>
		<u>\$ 2,297,406</u>

Overlapping Debt

The City pays assessments which includes debt service payments to other local governmental units providing services within the City's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of the governmental unit, the estimated share of such debt being serviced by the City and the total of its share of estimated indirect debt.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

	Long Term Debt Outstanding	City's Estimated Share	City's Estimated Indirect Debt
Northern Berkshire Vocational Tech School District	\$ 468,750	34.60%	\$ 162,188
Hoosac Water Quality District	6,941,701	55.25%	3,835,012
			\$ 3,997,200

G. Fund Balances

The following is a summary of the Governmental Fund balances of the City at the year ended June 30, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Federal, state and local grants	\$ -	\$ 440,939	\$ 440,939
School revolving funds	-	1,537,509	1,537,509
Gifts and donations	-	224,456	224,456
Permanent funds	-	441,118	441,118
Capital projects	-	3,697	3,697
Other	-	728,913	728,913
	-	3,376,632	3,376,632
Committed:			
Parking meters and permits	-	131,562	131,562
Landfill/transfer station	-	236,219	236,219
	-	367,781	367,781
Assigned:			
General government	63,184	-	63,184
Public safety	1,098	-	1,098
Public works	11,569	-	11,569
Education	160,138	-	160,138
Culture and recreation	1,400	-	1,400
	237,389	-	237,389
Unassigned:	894,784	-	894,784
Deficits:			
Capital project funds	-	(1,084,128)	(1,084,128)
Special revenue funds; Airport	-	(33,209)	(33,209)
	894,784	(1,117,337)	(222,553)
Total Governmental fund balances	\$ 1,132,173	\$ 2,627,076	\$ 3,759,249

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

H. Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the City may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The stabilization fund may be appropriated in a City by the City Council for any lawful purpose.

At June 30, 2012, the balance in the stabilization fund is \$349,062 and is reported in the General Fund as unassigned fund balance.

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Litigation

Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012. The outcome of lawsuits is not expected to materially affect the financial condition of the City.

Federal Financial Assistance

The City receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the City.

The outcome of any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the City.

C. Landfill Closure and Post-Closure Care Costs

State and federal laws and regulations require that the City of North Adams place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site after closure. The landfill ceased operations in November 1992 based upon 100% usage (filled) and has since been capped. Substantially all of the costs for closure have been paid as of June 30, 2001. Post-closure care is to be substantially performed by City employees in the normal course of their duties. Any additional or marginal costs for post-closure care have not been determined; however, such costs are expected to be immaterial, and accordingly, no accrual has been provided for post-closure care costs as

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

of the beginning or ending of the Fiscal Year. The actual cost of closure and post-closure care may be higher due to inflation, changes in technology, changes in estimates, or changes in landfill regulations.

D. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The City adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009, and thus recognizes the cost of post employment benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the City's future cash flows.

Plan Description

-The City provides a variety of plans offered by Commonwealth Indemnity Plan Basic with CIC (Comprehensive), Fallon and Health New England for non-Medicare retirees.

-The City provides a variety of plans offered by Network Blue New England, Network Blue New England Enhance, Blue Cross New England Plan 2 and Medex 3 for non-Medicare actives and retirees.

-The City covers 75% of the health insurance premiums and 60% for \$5,000 retiree life insurance benefit.

-The City's teachers upon retirement participate in the Commonwealth Group Insurance Commission (GIC).

The number of participants as of the last actuarial are:

Active members	322
Retirees	<u>377</u>
Total	<u><u>699</u></u>

Funding Policy

The contribution requirements of plan members and the City are established and may be amended through City policy and member contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2012 fiscal year, total City premiums plus implicit costs for the retiree medical program are \$3,168,700.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit ("OPEB") cost (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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the City's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan:

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Normal Cost	\$ 5,802,549
Interest on net OPEB obligation	461,821
Amortization of unfunded actuarial accrued liability	<u>(392,638)</u>
Annual OPEB cost (expense)	5,871,732
Contributions made during the fiscal year	<u>(3,168,700)</u>
Increase in net OPEB obligation	2,703,032
Net OPEB Obligation - beginning of year	<u>9,722,550</u>
Net OPEB Obligation - end of year	<u><u>\$ 12,425,582</u></u>

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2012 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 6,540,365	47.3%	\$ 6,947,225
6/30/2011	\$ 5,608,853	50.5%	\$ 9,722,550
6/30/2012	\$ 5,871,732	54.0%	\$ 12,425,582

Funded Status and Funding Process

As of June 30, 2010, the most recent valuation date, the plan was 0.0% funded. The actuarial liability for benefits was \$88,346,956, and the actuarial value of assets was 0.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$88,346,956. The covered payroll (annual payroll of active employees covered by the plan) was not available, and the ratio of the UAAL to the covered payroll was not available.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between 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 actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City OPEB actuarial valuation as of June 30, 2010, used the projected unit credit method. The OPEB liability is currently unfunded and the actuarial assumptions include a 4.75% pay-as-you-go scenario for the investment rate of return, a 3.5% inflation rate and a trend rate of 10% for the current fiscal year decreasing by 0.75% for 6 years and by 0.50% for 1 year to an ultimate level of 5.00% per year.

The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar amount open basis. The remaining amortization period at June 30, 2012 is 26 years.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

E. Pension Plan

Plan Description

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the North Adams Contributory Retirement Board. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of Commonwealth of Massachusetts Teachers' Retirement System to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers' Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$4,614,262 for the fiscal year ending June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and employee benefit expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987, and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the North Adams Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 85 Main Street, North Adams, Massachusetts 01247.

At December 31, 2012, the System's membership consists of the following:

Active Members	390
Retired Members, Beneficiaries and Survivors	198
	588

Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the employers required the City to contribute 98% of the total. Chapter 32B of the Massachusetts General Laws governs the contributions of plan members and the City.

The City's contribution to the System for the fiscal years ended June 30, 2012, 2011, and 2010 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	City's Contribution
2012	\$ 2,018,667
2011	\$ 2,027,942
2010	\$ 1,965,049

The following schedules are presented in accordance with the GASB No. 25.

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Vale of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 41,029,431	\$ 60,459,413	\$ 19,429,982	67.9%	\$ 10,388,467	187.0%
01/01/09	38,262,875	56,836,816	18,573,941	67.3%	9,877,348	188.0%
01/01/07	35,448,787	52,841,995	17,393,208	67.1%	9,347,575	186.1%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. The last actuarial valuation was prepared by the Public Employee Retirement Administration Commission as of January 1, 2011. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.0 % a year compounded annually, (b) projected salary, including longevity, increases of 4.75%, 5.00% and 5.25% for groups 1, 2 and 4 respectively, a year per member.

The total unfunded actuarial liability applicable to the City's employees at January 1, 2011 is as follows:

Actives	\$ 26,308,922
Retirees and inactive	34,150,491
Total actuarial liability	\$ 60,459,413
Assets	41,029,431
Unfunded acturial liability	\$ 19,429,982

Chapter 697 of the Acts of 1987, which was enacted on January 12, 1988, provides for funding of the Commonwealth's current unfunded pension liability over a period not greater than forty years. In addition, Chapter 697 contained significant financial incentives for local governmental units to establish its own state-approved funding schedule to eliminate its unfunded liability by June 30, 2028. The North Adams Retirement System accepted the provisions of Chapter 32, Section 22 (D), regarding acceptance of a funding schedule.

Reporting Policies

The funds of the North Adams Employees Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

F. Financial Condition of the City

In fiscal year 2010, the City sought special legislation from the Commonwealth of Massachusetts relative to the financial condition of the City's Medical Insurance Trust fund. The special act granted the City to borrow an amount not more than \$880,000 for the purpose of fully funding the Medical Insurance Trust for fiscal year 2010 and funding a settlement with the Public Employee Committee for underfunding the trust

CITY OF NORTH ADAMS, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

in prior fiscal years. The special act also provides for an alternative to borrowing and has a provision to capitalize an amount not exceeding \$880,000 and amortize that amount in equal or decreasing annual installments over a period starting with fiscal year 2012 and not exceeding 7 years.

As of June 30, 2012, the City has not borrowed any amount under this special act. The City has funded the trust in fiscal year 2010 for \$680,000. The City has dissolved the trust at June 30, 2011 and has become a premium basis system.

SUPPLEMENTARY SCHEDULES

**CITY OF NORTH ADAMS, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balances July 1, 2011	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2012
Special Revenue:					
Federal and State Grants:					
School Grants	\$ 225,386	\$ 3,407,149	\$ 3,415,538	\$ -	\$ 216,997
Airport Grants	102,884	1,507,256	1,642,732	(617)	(33,209)
Arts Lottery Council Grant	53,547	49,536	53,148	-	49,935
Community Development Grants	71,678	991,246	1,046,939	29,176	45,161
Energy American Recovery & Reinvestment Act	-	79,681	79,681	-	-
Extended Polling Hours	12,977	1,860	8,056	-	6,781
Highway Grants	32,300	229,632	229,632	-	32,300
Library Grants	53,301	23,037	34,089	-	42,249
Other Grants and Programs	41,276	28,366	30,362	-	39,280
Public Health Emergency Response	(1,496)	1,496	-	-	-
Public Safety Grants	23,176	466,959	482,591	-	7,544
Summer Work Youth Program	693	-	-	-	693
Schools:					
School Lunch Revolving	166,088	620,597	634,525	-	152,160
School Lunch Commodities	-	42,960	42,960	-	-
School Choice	923,372	258,078	298,369	-	883,081
School Insurance Reimbursement	2,292	-	500	-	1,792
School Revolving Accounts	122,494	208,769	188,890	-	142,373
State Special Education Reimbursement Fund	161,833	588,801	392,530	-	358,104
Other:					
Airport Funds	-	10,010	24,626	30,000	15,384
Board of Health Mini-Grant	3,000	-	-	-	3,000
Conservation Commission	5,618	1,438	6,502	-	554
Emergency Preparedness	1,600	-	-	-	1,600
Fire Department Fines	900	200	-	-	1,100
Friends of Massachusetts MOCA	1,039	-	-	-	1,039
Gifts and Donations	205,143	91,559	72,246	-	224,456
Hardman Park Firepump	19,779	12,817	22,274	-	10,322
Heritage Park Rents	-	260,288	33,247	-	227,041
Insurance Loss Control Grant	-	4,742	4,742	-	-
Landfill Transfer Station	115,297	120,922	-	-	236,219
Municipal Access	56,300	33,359	-	-	89,659
North Adams Farmers	-	5,772	3,086	-	2,686
Parking Meters and Permits	112,302	69,121	-	(49,861)	131,562
	\$ 2,512,779	\$ 9,115,651	\$ 8,747,265	\$ 8,698	\$ 2,889,863

**CITY OF NORTH ADAMS, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	Fund Balances July 1, 2011	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2012
Continued from Page 43	\$ 2,512,779	\$ 9,115,651	\$ 8,747,265	\$ 8,698	\$ 2,889,863
Special Revenue (continued):					
Other (continued):					
Police Outside Details	-	226,420	226,420	-	-
Property Damages	62,791	29,157	36,292	-	55,656
Sale of Cemetery Lots	9,811	15,210	-	-	25,021
Sale of City Property	45,346	-	-	(12,500)	32,846
The Armory	43,894	9,040	20,445	(29,176)	3,313
Town of Adams Sewer Program	30,724	20,015	-	-	50,739
Windsor Mill Rents	70,730	120,658	119,574	-	71,814
Colonel Lawrence	1,786	39	-	-	1,825
Mott 2005/2006 (Mohawk Theatre)	10,279	158	-	-	10,437
Skating Rink	160,543	282,047	317,714	-	124,876
Total Special Revenue	2,948,683	9,818,395	9,467,710	(32,978)	3,266,390
Capital Projects:					
Airport Improvements	(324,027)	-	205,475	617	(528,885)
Conte School Feasibility Study	(74,064)	31,574	39,467	-	(81,957)
Education Reserve	1,348	-	-	-	1,348
Hurricane Irene Damage	-	603,414	703,046	-	(99,632)
New Equipment	(89,671)	-	160,326	-	(249,997)
Underground Tanks	2,349	-	-	-	2,349
Water Treatment Facility	15,648	-	-	(15,648)	-
Windsor Lake Improvement	(39,301)	-	84,357	-	(123,658)
Total Capital Projects	(507,718)	634,988	1,192,671	(15,031)	(1,080,432)
Perpetual Permanent Funds:					
Cemetery Perpetual Care	402,526	3,133	3,152	-	402,507
Tinker Trust Fund	34,611	4,000	-	-	38,611
Total Perpetual Permanent Funds	437,137	7,133	3,152	-	441,118
Total - Non-Major Governmental Funds	\$ 2,878,102	\$ 10,460,516	\$ 10,663,533	\$ (48,009)	\$ 2,627,076

**CITY OF NORTH ADAMS, MASSACHUSETTS
SCHEDULE OF REAL ESTATE AND PERSONAL PROPERTY TAXES
JULY 1, 2011 TO JUNE 30, 2012**

	Uncollected Taxes July 1, 2011	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2012	Uncollected Taxes Per Detail June 30, 2012
Real Estate Taxes:						
Levy of 2012	\$ -	\$ 12,375,254	\$ 357,632	\$ 11,694,186	\$ 323,436	\$ 323,436
Levy of 2011	393,231	-	84,822	277,526	30,883	30,883
Levy of 2010	635	-	1,192	(1,192)	635	635
Levy of 2009	1,454	-	-	-	1,454	1,454
Prior Years	4,881	-	-	-	4,881	4,881
	<u>400,201</u>	<u>12,375,254</u>	<u>443,646</u>	<u>11,970,520</u>	<u>361,289</u>	<u>361,289</u>
Personal Property Taxes:						
Levy of 2012	-	964,741	4,858	952,280	7,603	7,603
Levy of 2011	5,546	-	507	2,523	2,516	2,516
Levy of 2010	5,641	-	4,395	236	1,010	1,010
Levy of 2009	6,920	-	6,502	190	228	228
Levy of 2008	6,430	-	6,378	-	52	52
Prior Years	47	-	47	-	-	-
	<u>24,584</u>	<u>964,741</u>	<u>22,687</u>	<u>955,229</u>	<u>11,409</u>	<u>11,409</u>
Total Real Estate and Personal Property Taxes	\$ 424,785	\$ 13,339,995	\$ 466,333	\$ 12,925,749	\$ 372,698	\$ 372,698

CITY OF NORTH ADAMS, MASSACHUSETTS
 SCHEDULE OF MOTOR VEHICLE EXCISE TAXES
 JULY 1, 2011 TO JUNE 30, 2012

	Uncollected Taxes July 1, 2011	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2012	Uncollected Taxes Per Detail June 30, 2012
Motor Vehicle Excise Taxes:						
Levy of 2012	\$ -	\$ 917,174	\$ 24,479	\$ 747,994	\$ 144,701	\$ 144,701
Levy of 2011	117,208	80,330	24,359	141,550	31,629	31,629
Levy of 2010	26,399	131	769	10,576	15,185	15,185
Levy of 2009	16,537	-	107	3,378	13,052	13,052
Levy of 2008	11,744	-	47	1,288	10,409	10,409
Prior Years	42,536	-	(241)	1,652	41,125	41,125
Total Motor Vehicle Excise Taxes	\$ 214,424	\$ 997,635	\$ 49,520	\$ 906,438	\$ 256,101	\$ 256,101

CITY OF NORTH ADAMS, MASSACHUSETTS
 SCHEDULE OF TAX LIENS
 JULY 1, 2011 TO JUNE 30, 2012

Uncollected Accounts July 1, 2011	Commitments	Abatements and Adjustments	Adjusted Accounts Overpayments	Uncollected Accounts June 30, 2012	Uncollected Accounts Per Detail June 30, 2012
\$ 1,417,873	\$ 444,890	-	\$ 65,252	\$ 1,797,511	\$ 1,797,511
Tax Liens					
	\$	\$	\$	\$	\$