

***TOWN OF LUNENBURG, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2011***

TOWN OF LUNENBURG, MASSACHUSETTS  
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JUNE 30, 2011

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Lunenburg, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lunenburg, Massachusetts, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Lunenburg, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lunenburg, Massachusetts, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2012, on our consideration of the Town of Lunenburg, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual, retirement system schedule of funding progress, retirement system schedule of employer contributions, other postemployment benefit plan schedule of funding progress and employer contributions and other postemployment benefit plan actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

March 3, 2012

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Town of Lunenburg, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### **Financial Highlights**

- The assets of the Town of Lunenburg exceeded its liabilities at the close of the most recent fiscal year by \$33 million (net assets).
- Of this amount 14% or \$4.7 million (unrestricted net assets) may be used to meet the government's on-going obligations to citizens and creditors.
- At the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$2.5 million, a decrease of approximately (\$363,000) in comparison with the prior year. Total fund balance represents 8% of total general fund expenditures.
- The Town's total debt (short-term and long-term combined) decreased by \$1.5 million during the current fiscal year. This was due to the net effect of the issuance of \$515,000 of short-term notes payable and \$2 million in principal payments on long-term debt.
- Fiscal 2011 was the third year since the implementation of GASB Statement #45, which resulted in the recognition of an additional \$2.8 million of other postemployment benefit (OPEB) obligations. As of June 30, 2011 the OPEB liability totaled \$9.1 million.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Town of Lunenburg's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**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, public safety, education, public works, human services, culture and recreation and interest. The business-type activities include the activities of the sewer and solid waste/recycling operations.

**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 financing requirements.

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

The Town of Lunenburg 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.

Fiscal year 2011 was the Town's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the Town's stabilization funds are reported within the general fund as unassigned.

**Proprietary funds.** The Town maintains one type of proprietary fund.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer and solid waste/recycling activities.

**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 statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety 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.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Lunenburg's assets exceeded liabilities by \$33 million at the close of fiscal 2011.

Net assets of \$27.4 million (83%) reflects its investment in capital assets (e.g., land, buildings and building improvements, machinery and equipment and infrastructure), less any related debt used to acquire those assets

that are still outstanding. The Town 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, \$899,000, (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$4.7 million (14%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets for the Town as a whole and its business-type activities and two out of the three categories for governmental activities.

The governmental and business-type activities of the Town are presented below.

**Governmental Activities**

The Town of Lunenburg's assets exceeded liabilities for governmental activities by \$21.4 million at the close of fiscal 2011.

	FY 2011 Governmental Activities	FY 2010 Governmental Activities	Increase (Decrease)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets:</b>			
Current assets.....	\$ 8,315,635	\$ 8,025,140	\$ 290,495
Noncurrent assets (excluding capital).....	5,757,551	6,176,544	(418,993)
Capital assets.....	<u>35,702,104</u>	<u>36,465,292</u>	<u>(763,188)</u>
<b>Total assets.....</b>	<b><u>49,775,290</u></b>	<b><u>50,666,976</u></b>	<b><u>(891,686)</u></b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	1,945,963	1,762,170	183,793
Noncurrent liabilities (excluding debt).....	9,389,000	6,626,000	2,763,000
Current debt.....	1,823,584	1,392,738	430,846
Noncurrent debt.....	<u>15,267,298</u>	<u>16,575,882</u>	<u>(1,308,584)</u>
<b>Total liabilities.....</b>	<b><u>28,425,845</u></b>	<b><u>26,356,790</u></b>	<b><u>2,069,055</u></b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt.....	24,805,204	24,642,908	162,296
Restricted.....	898,729	1,016,870	(118,141)
Unrestricted.....	<u>(4,354,488)</u>	<u>(1,349,592)</u>	<u>(3,004,896)</u>
<b>Total net assets.....</b>	<b><u>\$ 21,349,445</u></b>	<b><u>\$ 24,310,186</u></b>	<b><u>\$ (2,960,741)</u></b>

	FY 2011 Governmental Activities	FY 2010 Governmental Activities	Increase (Decrease)
<b>Program revenues:</b>			
Charges for services.....	\$ 2,820,329	\$ 3,084,168	\$ (263,839)
Operating grants and contributions.....	5,240,261	6,024,168	(783,907)
Capital grants and contributions.....	324,483	1,519,922	(1,195,439)
<b>General Revenues:</b>			
Real estate and personal property taxes.....	17,721,504	17,090,286	631,218
Motor vehicle and other excise taxes.....	1,193,384	1,182,680	10,704
Penalties and interest on taxes.....	133,192	146,975	(13,783)
Payments in lieu of taxes.....	1,607	1,598	9
Fines and forfeitures.....	35,997	58,018	(22,021)
Grants and contributions not restricted to specific programs.....	5,796,458	6,188,934	(392,476)
Unrestricted investment income.....	59,731	64,580	(4,849)
Other revenues.....	291,833	243,578	48,255
<b>Total revenues.....</b>	<b><u>33,618,779</u></b>	<b><u>35,604,907</u></b>	<b><u>(1,986,128)</u></b>
<b>Expenses:</b>			
General government.....	2,863,657	3,033,547	(169,890)
Public safety.....	4,809,807	5,164,720	(354,913)
Education.....	24,880,225	24,788,684	91,541
Public works.....	2,117,163	1,951,533	165,630
Human services.....	410,715	367,837	42,878
Culture and recreation.....	735,504	754,297	(18,793)
Claims and judgments.....	90,000	-	90,000
Interest.....	703,164	726,030	(22,866)
<b>Total expenses.....</b>	<b><u>36,610,235</u></b>	<b><u>36,786,648</u></b>	<b><u>(176,413)</u></b>
<b>Increase in net assets before transfers.....</b>	<b><u>(2,991,456)</u></b>	<b><u>(1,181,741)</u></b>	<b><u>(1,809,715)</u></b>
<b>Transfers.....</b>	<b><u>30,715</u></b>	<b><u>(84,446)</u></b>	<b><u>115,161</u></b>
<b>Change in net assets.....</b>	<b><u>\$ (2,960,741)</u></b>	<b><u>\$ (1,266,187)</u></b>	<b><u>\$ (1,694,554)</u></b>

The governmental expenses totaled \$36.6 million of which \$8.4 million (23%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$25.2 million, primarily coming from property taxes, motor vehicle excise and non-restricted state aid.

The governmental activities decreased by \$3 million in fiscal 2011. The key elements of the change are the recognition of an additional \$2.8 million of other postemployment benefit liabilities and the use of \$150,000 of free cash to fund the Town's share of the fiscal 2010 ice storm and the use of \$85,000 of free cash to fund the Town's fiscal 2011 capital plan.

Operating grants and contributions decreased by \$784,000 during fiscal 2011. The key elements of the change are a \$594,000 decrease in federal disaster assistance and a \$200,000 decrease in education grants.

Capital grants and contributions decreased by \$1.2 million during fiscal 2011. The key elements of the change are a \$1 million decrease in street betterments and a \$168,000 decrease in state highway construction grants.

## Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$11.7 million at the close of fiscal 2011.

	FY 2011 Business-type Activities	FY 2010 Business-type Activities	Increase (Decrease)
<b>Assets:</b>			
Current assets.....	\$ 2,209,132	\$ 2,080,503	\$ 128,629
Noncurrent assets (excluding capital).....	8,585,127	8,805,975	(220,848)
Capital assets.....	11,610,977	11,880,689	(269,712)
<b>Total assets.....</b>	<b>22,405,236</b>	<b>22,767,167</b>	<b>(361,931)</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt).....	154,782	260,887	(106,105)
Noncurrent liabilities (excluding debt).....	59,000	41,000	18,000
Current debt.....	649,904	631,286	18,618
Noncurrent debt.....	9,872,207	10,522,111	(649,904)
<b>Total liabilities.....</b>	<b>10,735,893</b>	<b>11,455,284</b>	<b>(719,391)</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt.....	2,607,119	2,328,968	278,151
Unrestricted.....	9,062,224	8,982,915	79,309
<b>Total net assets.....</b>	<b>\$ 11,669,343</b>	<b>\$ 11,311,883</b>	<b>\$ 357,460</b>
<b>Program revenues:</b>			
Charges for services.....	\$ 892,159	\$ 914,671	\$ (22,512)
Operating grants and contributions.....	239,245	255,476	(16,231)
Capital grants and contributions.....	484,910	2,056,569	(1,571,659)
<b>General Revenues:</b>			
Payments in lieu of taxes.....	266,837	233,734	33,103
Unrestricted investment income.....	3,430	5,040	(1,610)
<b>Total revenues.....</b>	<b>1,886,581</b>	<b>3,465,490</b>	<b>(1,578,909)</b>
<b>Expenses:</b>			
Sewer.....	1,213,483	1,247,365	(33,882)
Solid waste/recycling.....	284,923	325,314	(40,391)
<b>Total expenses.....</b>	<b>1,498,406</b>	<b>1,572,679</b>	<b>(74,273)</b>
<b>Increase in net assets before transfers.....</b>	<b>388,175</b>	<b>1,892,811</b>	<b>(1,504,636)</b>
<b>Transfers.....</b>	<b>(30,715)</b>	<b>84,446</b>	<b>(115,161)</b>
<b>Change in net assets.....</b>	<b>\$ 357,460</b>	<b>\$ 1,977,257</b>	<b>\$ (1,619,797)</b>

Business-type net assets of \$2.6 million (22%) represent the investment in capital assets while \$9.1 million (78%) is unrestricted. The Town's business-type activities net assets increased by \$357,000 in the current fiscal year, which can primarily be attributed to the sewer operations.

The sewer operations experienced an increase of \$351,000, which is primarily due to the recognition of revenue from sewer betterments.

The solid waste/recycling operations experienced an increase of \$7,000, which is inline with the Town's expectations.

## ***Financial Analysis of the Government's Funds***

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

**Governmental funds.** The focus of *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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4.1 million. The general fund's \$2.5 million fund balance includes \$1.3 million of stabilization funds reported with the general fund to be in compliance with GASB 54. The remaining \$1.6 million is for the non-major governmental funds. Cumulatively there was a decrease of (\$528,000) from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1.5 million, while total fund balance reached \$2.5 million. Assigned and restricted fund balance for encumbrances and continuing appropriations and debt service totaled \$208,000 and \$780,000, respectively. Total fund balance represents 8% of total general fund expenditures.

The Town's general fund decreased by (\$363,000) in fiscal 2011. This decrease is primarily due to the payment of a \$90,000 court judgment liability and the use of \$235,000 of free cash to fund the Town's share of the fiscal 2010 ice storm (\$150,000) and the Town's fiscal 2011 capital plan (\$85,000).

The state fiscal stabilization grant fund is used to account for federal funds that were received through the American Recovery and Reinvestment Act. During fiscal 2011, the Town received and expended approximately \$24,000 of grant funds.

### ***General Fund Budgetary Highlights***

The initial budget and the encumbrances and continuing appropriations (original budget) totaled \$26.9 million. Changes during the year consisted largely of allocations between and among departments. The net increase to the final budget totaled \$227,000 and primarily related to the use of free cash to fund the Town's share of the fiscal 2009 snow and ice emergency and to fund the Town's capital plan.

### ***Capital Asset and Debt Administration***

**Capital Assets.** In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$47.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, and infrastructure. The total decrease in the Town's investment in capital assets for the current year was approximately \$1 million.

The major governmental capital asset events during the current fiscal year included building renovations, the purchase of machinery and equipment, the purchase of vehicles, and the completion of street repaving.

There were no significant major business-type capital asset events during the current fiscal year.

**Debt Administration.** Outstanding long-term debt of the general government, as of June 30, 2011, totaled \$16.6 million, of which \$8.4 million is related to school construction projects, \$4.1 million is related to the public safety center construction project, an ambulance and a fire truck, \$1.3 million is related to the library construction project and \$2.8 million is related to other CIP related projects.

The Town also had a \$515,000 bond anticipation note outstanding, at fiscal year-end, to temporarily finance the Town's capital plan.

The sewer enterprise fund has outstanding long-term debt totaling \$10.5 million, which funded various sewer infrastructure projects.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

### ***Requests for Information***

This financial report is designed to provide a general overview of the Town of Lunenburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, 17 Main Street, Lunenburg, Massachusetts 01462.

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 5,064,423	\$ 1,654,333	\$ 6,718,756
Investments.....	1,282,178	-	1,282,178
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	471,871	-	471,871
Tax liens and foreclosures.....	739,841	-	739,841
Motor vehicle and other excise taxes.....	99,748	-	99,748
User fees.....	795	73,544	74,339
Departmental and other.....	310,665	-	310,665
Special assessments.....	64,901	394,936	459,837
Intergovernmental.....	339,150	86,319	425,469
Internal balances.....	(57,937)	72,187	14,250
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special assessments.....	1,126,116	7,081,006	8,207,122
Intergovernmental.....	4,631,435	1,431,934	6,063,369
Capital assets, nondepreciable.....	4,261,654	-	4,261,654
Capital assets, net of accumulated depreciation.....	<u>31,440,450</u>	<u>11,610,977</u>	<u>43,051,427</u>
TOTAL ASSETS.....	<u>49,775,290</u>	<u>22,405,236</u>	<u>72,180,526</u>
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	410,042	48,674	458,716
Accrued payroll.....	1,018,182	1,870	1,020,052
Accrued interest.....	78,502	104,238	182,740
Payroll withholdings.....	193,550	-	193,550
Abandoned property.....	28,923	-	28,923
Other liabilities.....	14,685	-	14,685
Customer deposits payable.....	8,079	-	8,079
Landfill closure.....	17,000	-	17,000
Compensated absences.....	177,000	-	177,000
Notes payable.....	515,000	-	515,000
Bonds payable.....	1,308,584	649,904	1,958,488
NONCURRENT:			
Landfill closure.....	238,000	-	238,000
Compensated absences.....	94,000	-	94,000
Other postemployment benefits obligation.....	9,057,000	59,000	9,116,000
Bonds payable.....	<u>15,267,298</u>	<u>9,872,207</u>	<u>25,139,505</u>
TOTAL LIABILITIES.....	<u>28,425,845</u>	<u>10,735,893</u>	<u>39,161,738</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	24,805,204	2,607,119	27,412,323
Restricted for:			
Permanent funds:			
Expendable.....	105,293	-	105,293
Nonexpendable.....	235,436	-	235,436
Gifts and grants.....	558,000	-	558,000
Unrestricted.....	<u>(4,354,488)</u>	<u>9,062,224</u>	<u>4,707,736</u>
TOTAL NET ASSETS.....	<u>\$ 21,349,445</u>	<u>\$ 11,669,343</u>	<u>\$ 33,018,788</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 2,863,657	\$ 361,850	\$ 11,691	\$ -	\$ (2,490,116)
Public safety.....	4,809,807	825,185	204,493	-	(3,780,129)
Education.....	24,880,225	1,552,199	4,821,380	-	(18,506,646)
Public works.....	2,117,163	18,010	88,989	324,400	(1,685,764)
Human services.....	410,715	37,670	15,535	83	(357,427)
Culture and recreation.....	735,504	25,415	35,712	-	(674,377)
Claims and judgments.....	90,000	-	-	-	(90,000)
Interest.....	703,164	-	62,461	-	(640,703)
Total Governmental Activities...	<u>36,610,235</u>	<u>2,820,329</u>	<u>5,240,261</u>	<u>324,483</u>	<b>(28,225,162)</b>
<i>Business-Type Activities:</i>					
Sewer.....	1,213,483	600,519	239,245	484,910	111,191
Solid Waste/Recycling.....	284,923	291,640	-	-	6,717
Total Business-Type Activities..	<u>1,498,406</u>	<u>892,159</u>	<u>239,245</u>	<u>484,910</u>	<b>117,908</b>
Total Primary Government.....	<u>\$ 38,108,641</u>	<u>\$ 3,712,488</u>	<u>\$ 5,479,506</u>	<u>\$ 809,393</u>	<b>\$ (28,107,254)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page....	\$ <b>(28,225,162)</b>	\$ <b>117,908</b>	\$ <b>(28,107,254)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	17,721,504	-	17,721,504
Tax liens.....	291,833	-	291,833
Motor vehicle and other excise taxes.....	1,193,384	-	1,193,384
Penalties and interest.....	133,192	266,837	400,029
Payments in lieu of taxes.....	1,607	-	1,607
Fines and forfeitures.....	35,997	-	35,997
Grants and contributions not restricted to specific programs.....	5,796,458	-	5,796,458
Unrestricted investment income.....	59,731	3,430	63,161
<i>Transfers, net.....</i>	<u>30,715</u>	<u>(30,715)</u>	<u>-</u>
Total general revenues and transfers.....	<u>25,264,421</u>	<u>239,552</u>	<u>25,503,973</u>
Change in net assets.....	(2,960,741)	357,460	(2,603,281)
<i>Net Assets:</i>			
Beginning of year.....	<u>24,310,186</u>	<u>11,311,883</u>	<u>35,622,069</u>
End of year.....	\$ <u><u>21,349,445</u></u>	\$ <u><u>11,669,343</u></u>	\$ <u><u>33,018,788</u></u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2011

<b>ASSETS</b>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 2,747,484	\$ 2,316,939	\$ 5,064,423
Investments.....	1,186,777	95,401	1,282,178
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	471,871	-	471,871
Tax liens and foreclosures.....	739,841	-	739,841
Motor vehicle and other excise taxes.....	99,748	-	99,748
User fees.....	-	795	795
Departmental and other.....	310,665	-	310,665
Special assessments.....	1,189,893	1,124	1,191,017
Intergovernmental.....	4,970,585	-	4,970,585
Due from other funds.....	108,710	50,519	159,229
<b>TOTAL ASSETS.....</b>	<b>\$ 11,825,574</b>	<b>\$ 2,464,778</b>	<b>\$ 14,290,352</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 203,919	\$ 206,123	\$ 410,042
Accrued payroll.....	879,012	139,170	1,018,182
Liabilities due depositors.....	8,079	-	8,079
Payroll withholdings.....	193,550	-	193,550
Abandoned property.....	28,923	-	28,923
Other liabilities.....	14,685	-	14,685
Deferred revenues.....	7,782,603	1,919	7,784,522
Due to other funds.....	213,252	3,914	217,166
Notes payable.....	-	515,000	515,000
<b>TOTAL LIABILITIES.....</b>	<b>9,324,023</b>	<b>866,126</b>	<b>10,190,149</b>
 <b>FUND BALANCES:</b>			
Nonspendable.....	-	235,436	235,436
Restricted.....	779,460	1,586,103	2,365,563
Assigned.....	207,451	-	207,451
Unassigned.....	1,514,640	(222,887)	1,291,753
<b>TOTAL FUND BALANCES.....</b>	<b>2,501,551</b>	<b>1,598,652</b>	<b>4,100,203</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 11,825,574</b>	<b>\$ 2,464,778</b>	<b>\$ 14,290,352</b>

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....		\$ 4,100,203
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		35,702,104
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		7,784,522
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(78,502)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(16,575,882)	
Landfill closure.....	(255,000)	
Other postemployment benefits obligation.....	(9,057,000)	
Compensated absences.....	<u>(271,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(26,158,882)</u>
Net assets of governmental activities.....		<u>\$ 21,349,445</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2011

	General	State Fiscal Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 17,715,006	\$ -	\$ -	\$ 17,715,006
Tax liens.....	228,736	-	-	228,736
Motor vehicle and other excise taxes.....	1,179,520	-	-	1,179,520
Charges for services.....	-	-	502,598	502,598
Penalties and interest on taxes.....	132,513	-	773	133,286
Fees and rentals.....	434,785	-	1,490,203	1,924,988
Payments in lieu of taxes.....	1,607	-	-	1,607
Licenses and permits.....	309,587	-	-	309,587
Fines and forfeitures.....	35,797	-	9,541	45,338
Intergovernmental.....	9,325,667	24,149	2,259,675	11,609,491
Departmental and other.....	-	-	33,692	33,692
Special assessments.....	58,573	-	2,331	60,904
Contributions.....	-	-	84,262	84,262
Investment income.....	44,502	-	15,609	60,111
<b>TOTAL REVENUES.....</b>	<b>29,466,293</b>	<b>24,149</b>	<b>4,398,684</b>	<b>33,889,126</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	1,460,660	-	196,638	1,657,298
Public safety.....	2,317,267	-	587,108	2,904,375
Education.....	15,105,931	24,149	3,602,417	18,732,497
Public works.....	1,130,524	-	478,771	1,609,295
Human services.....	185,745	-	62,265	248,010
Culture and recreation.....	384,364	-	63,315	447,679
Pension benefits.....	3,693,325	-	-	3,693,325
Property and liability insurance.....	136,797	-	-	136,797
Employee benefits.....	2,080,351	-	-	2,080,351
Claims and judgments.....	90,000	-	-	90,000
State and county charges.....	747,256	-	-	747,256
Debt service:				
Principal.....	1,392,738	-	-	1,392,738
Interest.....	707,900	-	-	707,900
<b>TOTAL EXPENDITURES.....</b>	<b>29,432,858</b>	<b>24,149</b>	<b>4,990,514</b>	<b>34,447,521</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>33,435</b>	<b>-</b>	<b>(591,830)</b>	<b>(558,395)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	41,587	-	592,781	634,368
Transfers out.....	(437,591)	-	(166,062)	(603,653)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(396,004)</b>	<b>-</b>	<b>426,719</b>	<b>30,715</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(362,569)</b>	<b>-</b>	<b>(165,111)</b>	<b>(527,680)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR, AS REVISED.....</b>	<b>2,864,120</b>	<b>-</b>	<b>1,763,763</b>	<b>4,627,883</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 2,501,551</b>	<b>\$ -</b>	<b>\$ 1,598,652</b>	<b>\$ 4,100,203</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds..... \$ (527,680)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	892,251
Depreciation expense.....	<u>(1,655,439)</u>

Net effect of reporting capital assets..... (763,188)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... (270,347)

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt service principal payments..... 1,392,738

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 the governmental funds.

Net change in compensated absences accrual.....	(53,000)
Net change in accrued interest on long-term debt.....	4,736
Net change in landfill closure liability.....	17,000
Net change in other postemployment benefits obligation.....	<u>(2,761,000)</u>

Net effect of recording long-term liabilities and amortizing deferred losses... (2,792,264)

Change in net assets of governmental activities..... \$ (2,960,741)

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-type Activities - Enterprise Funds		
	Sewer	Solid Waste/ Recycling	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 1,625,903	\$ 28,430	\$ 1,654,333
Receivables, net of allowance for uncollectibles:			
User fees.....	51,304	22,240	73,544
Due from other funds.....	78,837	-	78,837
Special assessments.....	394,936	-	394,936
Intergovernmental.....	86,319	-	86,319
Total current assets.....	<u>2,237,299</u>	<u>50,670</u>	<u>2,287,969</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	1,431,934	-	1,431,934
Special assessments.....	7,081,006	-	7,081,006
Capital assets, net of accumulated depreciation....	11,610,977	-	11,610,977
Total noncurrent assets.....	<u>20,123,917</u>	<u>-</u>	<u>20,123,917</u>
<b>TOTAL ASSETS.....</b>	<u><b>22,361,216</b></u>	<u><b>50,670</b></u>	<u><b>22,411,886</b></u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	11,533	37,141	48,674
Accrued payroll.....	1,870	-	1,870
Accrued interest.....	104,238	-	104,238
Due to other funds.....	-	6,650	6,650
Bonds payable.....	649,904	-	649,904
Total current liabilities.....	<u>767,545</u>	<u>43,791</u>	<u>811,336</u>
<b>NONCURRENT:</b>			
Other postemployment benefits obligation.....	59,000	-	59,000
Bonds payable.....	9,872,207	-	9,872,207
Total noncurrent liabilities.....	<u>9,931,207</u>	<u>-</u>	<u>9,931,207</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>10,698,752</b></u>	<u><b>43,791</b></u>	<u><b>10,742,543</b></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	2,607,119	-	2,607,119
Unrestricted.....	9,055,345	6,879	9,062,224
<b>TOTAL NET ASSETS.....</b>	<u><u><b>\$ 11,662,464</b></u></u>	<u><u><b>\$ 6,879</b></u></u>	<u><u><b>\$ 11,669,343</b></u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Solid Waste/ Recycling</u>	<u>Total</u>
<b><u>OPERATING REVENUES:</u></b>			
Charges for services .....	\$ 423,669	\$ 291,640	\$ 715,309
Connection fee.....	176,550	-	176,550
Licenses and permits.....	300	-	300
<b>TOTAL OPERATING REVENUES .....</b>	<b>600,519</b>	<b>291,640</b>	<b>892,159</b>
<b><u>OPERATING EXPENSES:</u></b>			
Salaries, wages, and fringe benefits .....	133,104	-	133,104
Maintenance and operations.....	322,543	284,923	607,466
Depreciation.....	269,712	-	269,712
<b>TOTAL OPERATING EXPENSES .....</b>	<b>725,359</b>	<b>284,923</b>	<b>1,010,282</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(124,840)</b>	<b>6,717</b>	<b>(118,123)</b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>			
Investment income.....	3,268	162	3,430
Interest expense.....	(488,124)	-	(488,124)
Special assessments.....	373,026	-	373,026
Penalties and interest.....	266,837	-	266,837
Intergovernmental.....	351,129	-	351,129
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>506,136</b>	<b>162</b>	<b>506,298</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>381,296</b>	<b>6,879</b>	<b>388,175</b>
<b><u>TRANSFERS:</u></b>			
Transfers out.....	(30,715)	-	(30,715)
<b>CHANGE IN NET ASSETS.....</b>	<b>350,581</b>	<b>6,879</b>	<b>357,460</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>11,311,883</b>	<b>-</b>	<b>11,311,883</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 11,662,464</b>	<b>\$ 6,879</b>	<b>\$ 11,669,343</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Solid Waste/ Recycling</u>	<u>Total</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Receipts from customers and users.....	\$ 866,720	\$ 269,400	\$ 1,136,120
Payments to vendors.....	(428,964)	(276,050)	(705,014)
Payments to employees.....	(116,179)	-	(116,179)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>321,577</b>	<b>(6,650)</b>	<b>314,927</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>			
Transfers out.....	(30,715)	-	(30,715)
Advances to/from other funds.....	(78,837)	6,650	(72,187)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(109,552)</b>	<b>6,650</b>	<b>(102,902)</b>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>			
Intergovernmental.....	111,884	-	111,884
Special assessments.....	491,409	-	491,409
Principal payments on bonds and notes.....	(547,863)	-	(547,863)
Interest expense.....	(256,361)	-	(256,361)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(200,931)</b>	<b>-</b>	<b>(200,931)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>			
Investment income.....	3,268	162	3,430
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>14,362</b>	<b>162</b>	<b>14,524</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>1,611,541</b>	<b>28,268</b>	<b>1,639,809</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 1,625,903</b>	<b>\$ 28,430</b>	<b>\$ 1,654,333</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>			
Operating income (loss).....	\$ (124,840)	\$ 6,717	\$ (118,123)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	269,712	-	269,712
Other receipts from customers.....	266,837	-	266,837
Changes in assets and liabilities:			
User fees.....	(636)	(22,240)	(22,876)
Warrants payable.....	(106,421)	8,873	(97,548)
Accrued payroll.....	(1,075)	-	(1,075)
Other postemployment benefits obligation.....	18,000	-	18,000
<b>Total adjustments.....</b>	<b>446,417</b>	<b>(13,367)</b>	<b>433,050</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 321,577</b>	<b>\$ (6,650)</b>	<b>\$ 314,927</b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>			
Intergovernmental debt service subsidy.....	\$ 322,668	-	\$ 322,668

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2011

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	<u>Private Purpose Trust Funds</u>
<b>ASSETS</b>	
CURRENT:	
Cash and cash equivalents.....	\$ <u>439,540</u>
<b>LIABILITIES</b>	
Warrants payable.....	502
Due to other funds.....	<u>14,250</u>
TOTAL LIABILITIES.....	<u>14,752</u>
<b>NET ASSETS</b>	
Held in trust for other purposes.....	\$ <u><u>424,788</u></u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2011

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ 4,078
Net investment income (loss):	
Interest.....	<u>5,147</u>
TOTAL ADDITIONS.....	<u>9,225</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>14,751</u>
CHANGE IN NET ASSETS.....	(5,526)
NET ASSETS AT BEGINNING OF YEAR.....	<u>430,314</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 424,788</u>

The accompanying notes are an integral part of this audited financial statement.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Lunenburg, Massachusetts (the Town) 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 accounting policies are described herein.

**A. Reporting Entity**

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

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. It has been determined that there are no component units that meet the requirements for inclusion in the Town's financial statements.

**B. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) 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.

*Fund Financial Statements*

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

*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 or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise 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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

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

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

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

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *State fiscal stabilization fund* is used to account for the Town's use of the federal state fiscal stabilization program which was awarded to Governors to help stabilize State and local budgets in order to minimize and avoid reductions in education and other essential services.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following major proprietary funds are reported:

The *sewer enterprise fund* is used to account for the sewer activities.

The *solid waste/recycling enterprise fund* is used to account for the solid waste/recycling activities.

**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 governmental programs.

The following fiduciary fund type is reported:

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The Town's educational scholarship trusts are accounted for in this fund.

#### *Government-Wide and Fund Financial Statements*

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Real Estate, Personal Property Taxes and Tax Liens***

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

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

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

##### ***Motor Vehicle Excise***

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

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

##### ***User Fees***

User fees consist of sewer fees and solid waste/recycling fees which are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Liens are processed in December of every year and included as a lien on the property owner's tax bill. User fees and liens are recorded as receivables in the fiscal year of the levy. Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

##### ***Special Assessments***

Special assessments represent costs incurred on completed special projects that have been assessed to the benefited tax payers and which have not yet been paid. Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables consist solely of ambulance receivables. The ambulance receivables are considered 100% collectible because uncollectible accounts are written-off on monthly basis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded 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.

F. Inventories

*Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, buildings, machinery and equipment, and infrastructure (e.g., roads, sewer mains and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements and in the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

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

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	40
Building Improvements.....	20
Machinery and equipment.....	5-15
Vehicles.....	5
Infrastructure.....	50

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

*Governmental Fund Financial Statements*

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

#### H. Interfund Receivables and Payables

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

##### *Government-Wide Financial Statements*

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

##### *Fund Financial Statements*

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

#### I. Interfund Transfers

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

##### *Government-Wide Financial Statements*

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

##### *Fund Financial Statements*

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

#### J. Deferred Revenue

Deferred revenue at the governmental 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.

#### K. Net Assets and Fund Equity

##### *Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that 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:

"Permanent funds – nonexpendable" represents the endowment portion of donor restricted trusts that support governmental programs.

"Permanent funds – expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

“Gifts and grants” represents restrictions placed on assets from outside parties.

#### *Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

#### L. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

##### *Governmental Fund Financial Statements*

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

#### M. Investment Income

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

#### N. Compensated Absences

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

##### *Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

O. Use of Estimates*Government-Wide and Fund Financial Statements*

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

P. Total Column*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

Q. Fund Deficits

Several individual fund deficits exist at June 30, 2011 within the special revenue and capital project funds. These deficits will be funded with grants, bond proceeds and available funds in subsequent fiscal years.

**NOTE 2 - CASH AND INVESTMENTS**

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial risk. At fiscal year-end, the carrying amount of deposits totaled \$6,422,044 and the bank balance totaled \$6,778,233. Of the bank balance, \$2,376,487 was covered by Federal Depository Insurance, \$2,320,122 was covered by the Depositor's Insurance Fund and \$2,081,624 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2011, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>		
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt Securities</u>				
Government Agencies.....	\$ 124,190	\$ -	\$ 124,190	\$ -
Government Sponsored Enterprises.....	732,846	-	230,973	501,873
Corporate Bonds.....	<u>309,252</u>	<u>50,563</u>	<u>258,689</u>	<u>-</u>
Total Debt Securities.....	1,166,288	<u>\$ 50,563</u>	<u>\$ 613,852</u>	<u>\$ 501,873</u>
<u>Other Investments</u>				
Equity Mutual Funds.....	115,890			
Money Market Mutual Funds.....	513,935			
MMDT.....	<u>222,317</u>			
Total Investments.....	<u>\$ 2,018,430</u>			

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town has custodial credit risk exposure of \$1,166,288 because the government agency securities, government sponsored enterprise securities and corporate bonds are uninsured, unregistered and held by the counterparty. The Town does not have an investment policy for custodial credit risk.

Interest Rate Risk

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

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

Credit Risk

Standard and Poor’s Investors Service rated \$732,846 of government sponsored enterprise securities AAA and \$102,627 of corporate bonds were rated AA, \$54,563 were rated A, and \$152,062 were rated BBB. The Town has not adopted an investment policy that addresses credit risk.

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not currently have any investments that are subject to concentration of credit risk.

**NOTE 3 - RECEIVABLES**

At June 30, 2011, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 505,871	\$ (34,000)	\$ 471,871
Tax liens and foreclosures.....	739,841	-	739,841
Motor vehicle and other excise taxes.....	166,748	(67,000)	99,748
Water user fees.....	795	-	795
Departmental and other.....	504,665	(194,000)	310,665
Special assessments.....	1,191,017	-	1,191,017
Intergovernmental.....	4,970,585	-	4,970,585
Total.....	<u>\$ 8,079,522</u>	<u>\$ (295,000)</u>	<u>\$ 7,784,522</u>

At June 30, 2011, receivables for the sewer and sanitation/recycling enterprise funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer user fees.....	\$ 51,304	\$ -	\$ 51,304
Solid waste/recycling user fees.....	22,240	-	22,240
Sewer special assessments.....	7,475,942	-	7,475,942
Sewer intergovernmental.....	1,518,253	-	1,518,253
Total.....	<u>\$ 9,067,739</u>	<u>\$ -</u>	<u>\$ 9,067,739</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 471,871	\$ -	\$ 471,871
Tax liens and foreclosures.....	739,841	-	739,841
Motor vehicle and other excise taxes.....	99,748	-	99,748
User fees.....	-	795	795
Departmental and other.....	310,665	-	310,665
Special assessments.....	1,189,893	1,124	1,191,017
Intergovernmental.....	4,970,585	-	4,970,585
Total.....	<u>\$ 7,782,603</u>	<u>\$ 1,919</u>	<u>\$ 7,784,522</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, is as follows:

<b>Governmental Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,261,654	\$ -	\$ -	\$ 4,261,654
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	27,074,588	93,928	-	27,168,516
Machinery and equipment.....	4,111,405	576,263	-	4,687,668
Infrastructure.....	<u>24,524,422</u>	<u>222,060</u>	<u>(97,788)</u>	<u>24,648,694</u>
Total capital assets being depreciated.....	<u>55,710,415</u>	<u>892,251</u>	<u>(97,788)</u>	<u>56,504,878</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(6,870,816)	(652,828)	-	(7,523,644)
Machinery and equipment.....	(2,416,556)	(285,487)	-	(2,702,043)
Infrastructure.....	<u>(14,219,405)</u>	<u>(717,124)</u>	<u>97,788</u>	<u>(14,838,741)</u>
Total accumulated depreciation.....	<u>(23,506,777)</u>	<u>(1,655,439)</u>	<u>97,788</u>	<u>(25,064,428)</u>
Total capital assets being depreciated, net.....	<u>32,203,638</u>	<u>(763,188)</u>	<u>-</u>	<u>31,440,450</u>
Total governmental activities capital assets, net....	<u>\$ 36,465,292</u>	<u>\$ (763,188)</u>	<u>\$ -</u>	<u>\$ 35,702,104</u>

<b>Sewer Activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 13,485,598	\$ -	\$ -	\$ 13,485,598
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	<u>(1,604,909)</u>	<u>(269,712)</u>	<u>-</u>	<u>(1,874,621)</u>
Total sewer activities capital assets, net.....	<u>\$ 11,880,689</u>	<u>\$ (269,712)</u>	<u>\$ -</u>	<u>\$ 11,610,977</u>

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

<b>Governmental Activities:</b>	
General government.....	\$ 39,207
Public safety.....	319,287
Education.....	451,067
Public works.....	782,753
Culture and recreation.....	<u>63,125</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,655,439</u>
<b>Business-Type Activities:</b>	
Sewer.....	<u>\$ 269,712</u>

**NOTE 5 - INTERFUND TRANSFERS/BALANCES**

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

<u>Operating Transfers Out:</u>	<u>Operating Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund.....	\$ -	437,591	\$ 437,591 (1)
Nonmajor Governmental Funds.....	10,872	155,190	166,062 (2)
Sewer Enterprise Fund.....	30,715	-	30,715 (3)
	<u>\$ 41,587</u>	<u>\$ 592,781</u>	<u>\$ 634,368</u>

- (1) Represents budgeted transfers to fund the Town share of the fiscal 2010 ice storm (\$148,591) and to fund the fiscal 2011 capital plan (\$289,000).
- (2) Represents budgeted transfers of \$10,872 from other available funds to the general fund, a budgeted transfer of \$51,252 from the sale of real estate account to fund Town Hall renovations, and transfers of \$103,938, between capital project funds.
- (3) Represents a budgeted transfer of \$30,715 from the sewer enterprise fund to the general fund for indirect costs.

Interfund balances for the fiscal year ended June 30, 2011, are summarized as follows:

<u>Due to Other Funds:</u>	<u>Due From Other Funds:</u>			
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Enterprise Fund</u>	<u>Total</u>
General Fund.....	\$ 83,896	\$ 50,519	\$ 78,837	\$ 213,252
Nonmajor Governmental Funds.....	3,914	-	-	3,914
Solid Waste/Recycling.....	6,650	-	-	6,650
Private Purpose Trust Funds.....	14,250	-	-	14,250
	<u>\$ 108,710</u>	<u>\$ 50,519</u>	<u>\$ 78,837</u>	<u>\$ 238,066</u>

The interfund balances resulted from the time lag between the dates that payments between funds are made.

**NOTE 6 - SHORT-TERM FINANCING**

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, are as follows:

Type	Purpose	Rate (%)	Due Date	Beginning Balance	Proceeds	Payments	Ending Balance
BAN	Municipal Purpose...	1.05	6/29/2012	\$ -	\$ 515,000	\$ -	\$ 515,000

**NOTE 7 - LONG-TERM DEBT**

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2011, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Beginning Balance	Proceeds	Payments	Ending Balance
Mass. Water Pollution Trust - Pool 4, Loan T5-97-1185.....	0.00	\$ 97,828	\$ -	\$ 10,872	\$ 86,956
Municipal Purpose.....	4.79	85,000	-	85,000	-
Municipal Purpose - Public Safety Building.....	3.62	3,770,000	-	290,000	3,480,000
Municipal Purpose - School Construction.....	3.62	7,695,000	-	465,000	7,230,000
Municipal Purpose - Land Acquisition II.....	3.62	240,000	-	20,000	220,000
Municipal Purpose - Land Acquisition.....	3.62	120,000	-	10,000	110,000
Municipal Purpose - School Remodeling.....	3.94	100,000	-	10,000	90,000
Municipal Purpose - School Planning.....	3.94	70,000	-	5,000	65,000
Municipal Purpose - School Heating System.....	3.94	1,080,000	-	80,000	1,000,000
Municipal Purpose - Library.....	3.94	1,350,000	-	90,000	1,260,000
Municipal Purpose - Departmental Equipment I.....	3.94	200,000	-	20,000	180,000
Municipal Purpose - Parking Lot.....	3.94	25,000	-	15,000	10,000
Municipal Purpose - Landfill Closure.....	3.94	120,000	-	10,000	110,000
Municipal Purpose - Wastewater Planning.....	3.94	40,000	-	5,000	35,000
Mass. Water Pollution Trust - Series 14, Loan CW-06-08....	2.00	320,127	-	13,989	306,138
Water Bond.....	4.38	1,140,665	-	12,877	1,127,788
Municipal Purpose - Ambulance.....	2.50	160,000	-	25,000	135,000
Municipal Purpose - Fire.....	2.50	550,000	-	80,000	470,000
Municipal Purpose - School.....	3.00	40,000	-	15,000	25,000
Municipal Purpose - School.....	3.00	49,000	-	19,000	30,000
Municipal Purpose - Public Works.....	2.50	110,000	-	20,000	90,000
Municipal Purpose - Public Works.....	2.50	100,000	-	15,000	85,000
Municipal Purpose - Athletic Facility.....	2.50	431,000	-	61,000	370,000
Municipal Purpose - Landfill Closure.....	2.50	75,000	-	15,000	60,000
Total governmental bonds and notes payable.....		\$ 17,968,620	\$ -	\$ 1,392,738	\$ 16,575,882

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

Fiscal Year	Principal	Interest	Total
2012.....	\$ 1,308,584	\$ 618,095	\$ 1,926,679
2013.....	1,304,460	585,021	1,889,481
2014.....	1,300,368	522,354	1,822,722
2015.....	1,321,305	480,192	1,801,497
2016.....	1,347,279	435,099	1,782,378
Thereafter...	<u>9,993,886</u>	<u>2,330,713</u>	<u>12,324,599</u>
Totals.....	<u>\$ 16,575,882</u>	<u>\$ 4,971,474</u>	<u>\$ 21,547,356</u>

The General Fund is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for interest costs totaling \$26,416. Thus, net MWPAT loan repayments, including interest, are schedule to be \$86,957. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The fiscal year 2011 interest subsidy totaled \$4,151.

**Bonds and Notes Payable Schedule – Sewer Enterprise Fund**

Project	Interest Rate (%)	Beginning Balance	Proceeds	Payments	Ending Balance
Mass. Water Pollution Trust - Pool 3, Loan CW-95-21.....	1.80	\$ 68,296	\$ -	\$ 8,926	\$ 59,370
Mass. Water Pollution Trust - Pool 5, Loan CW-98-70.....	1.83	225,000	-	20,000	205,000
Mass. Water Pollution Trust - Pool 7, Loan CW-00-39.....	various	1,344,958	-	104,202	1,240,756
Mass. Water Pollution Trust - Pool 9, Loan CW-00-39-A.....	various	4,858,895	-	278,704	4,580,191
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-B...	0.00	76,391	-	6,366	70,025
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-C...	0.00	348,102	-	24,864	323,238
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-D...	0.00	254,063	-	14,115	239,948
Municipal Purpose - Sewer Construction.....	3.62	390,000	-	30,000	360,000
Municipal Purpose - Sewer Construction.....	3.94	310,000	-	25,000	285,000
Municipal Purpose - Sewer Construction.....	3.94	300,000	-	20,000	280,000
Municipal Purpose - Sewer Construction.....	3.94	700,000	-	45,000	655,000
Municipal Purpose - Sewer Construction.....	3.94	585,000	-	35,000	550,000
Sewer Bond.....	4.38	<u>1,692,692</u>	<u>-</u>	<u>19,109</u>	<u>1,673,583</u>
Total Sewer Enterprise bonds and notes payable.....		<u>\$ 11,153,397</u>	<u>\$ -</u>	<u>\$ 631,286</u>	<u>\$ 10,522,111</u>

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

Fiscal Year	Principal	Interest	Total
2012.....	\$ 649,904	\$ 470,140	\$ 1,120,044
2013.....	651,379	436,542	1,087,921
2014.....	668,067	404,484	1,072,551
2015.....	687,723	373,971	1,061,694
2016.....	698,432	339,770	1,038,202
Thereafter...	<u>7,166,606</u>	<u>2,316,754</u>	<u>9,483,360</u>
Totals.....	<u>\$ 10,522,111</u>	<u>\$ 4,341,661</u>	<u>\$ 14,863,772</u>

The Sewer Enterprise Fund is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$1,518,253 and interest costs for \$1,556,016. Thus, net MWPAT loan repayments, including interest, are schedule to be \$5,278,373. The principal subsidies are guaranteed and therefore a \$1,518,253 intergovernmental receivable has been reported in the proprietary fund financial statements. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The fiscal year 2011 principal and interest subsidies totaled \$83,423 and \$239,245, respectively.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. Approximately \$5,989,000 will be received in future fiscal years. Of this amount, approximately \$1,019,000 represents reimbursement of long-term interest costs, and approximately \$4,971,000 represents reimbursement of approved construction costs. Accordingly, a \$4,971,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2011, the Town had the following authorized and unissued debt.

Purpose	Amount
Sewer construction.....	\$ 312,972
Renovations.....	125,000
School building heating.....	56,550
Water and wastewater rural development.....	1,290,298
<b>Total.....</b>	<b>\$ 1,784,820</b>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<b>Governmental Activities:</b>					
Long-term bonds and notes.....	\$ 17,968,620	\$ -	\$ (1,392,738)	\$ 16,575,882	\$ 1,308,584
Other postemployment benefits.....	6,296,000	4,027,000	(1,266,000)	9,057,000	-
Landfill closure.....	272,000	-	(17,000)	255,000	17,000
Compensated absences.....	218,000	196,000	(143,000)	271,000	177,000
<b>Total governmental.....</b>	<b>\$ 24,754,620</b>	<b>\$ 4,223,000</b>	<b>\$ (2,818,738)</b>	<b>\$ 26,158,882</b>	<b>\$ 1,502,584</b>
<b>Business-Type Activities:</b>					
Long-term bonds and notes.....	\$ 11,153,397	\$ -	\$ (631,286)	\$ 10,522,111	\$ 649,904
Other postemployment benefits.....	41,000	26,000	(8,000)	59,000	-
<b>Total business-type.....</b>	<b>\$ 11,194,397</b>	<b>\$ 26,000</b>	<b>\$ (639,286)</b>	<b>\$ 10,581,111</b>	<b>\$ 649,904</b>

**NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its fiscal year 2011 reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At fiscal year-end, the balances of the general and zoning stabilization funds totaled \$973,525 and \$364,112, respectively and are reported as unassigned fund balance within the general fund.

In accordance with GASB Statement No. 54, the stabilization funds have been reported in the general fund, and accordingly, the general fund beginning balance increased by \$1,527,741 and the revised balance totals \$2,864,120.

GASB 54 provides for two major types of fund balance, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

	General	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 235,436	\$ 235,436
Restricted for:			
MSBA debt.....	779,460	-	779,460
Town public access cable committee.....	-	210,321	210,321
Sale of lots and graves.....	-	172,801	172,801
Town revolving funds.....	-	107,168	107,168
Town gift and grant funds.....	-	344,921	344,921
School lunch.....	-	12,201	12,201
School revolving funds.....	-	87,005	87,005
School gift and grant funds.....	-	349,134	349,134
Town capital projects.....	-	190,222	190,222
School capital projects.....	-	7,037	7,037
Perpetual care.....	-	984	984
Other permanent funds.....	-	104,309	104,309
Assigned to:			
General government.....	45,154	-	45,154
Public safety.....	5,159	-	5,159
Education.....	91,858	-	91,858
Public works.....	59,130	-	59,130
Employee benefits.....	6,150	-	6,150
Unassigned.....	1,514,640	(222,887)	1,291,753
Total Fund Balances (Deficit)..... \$	<u>2,501,551</u>	<u>\$ 1,598,652</u>	<u>\$ 4,100,203</u>

**NOTE 9 - RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town also administers premium-based health, workers' compensation and other insurance plans for its employees. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**NOTE 10 - PENSION PLAN**

*Plan Description* - The Town contributes to the Worcester Regional Retirement System (the System), a cost sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. School teachers and certain administrators are members of the Commonwealth of Massachusetts' Teachers Retirement System, to which the District does not contribute. All pension benefits and expenses paid by the Teachers Retirement System are funded by the Commonwealth of Massachusetts (Commonwealth). The amounts of these on-behalf payments totaled \$3,109,517 for the fiscal year ended June 30, 2011 and, accordingly, are reported in the general fund as intergovernmental revenues and pension benefits.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 must be

approved by the System and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 455 Main Street, Worcester, Massachusetts 01608.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution, which is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2011, 2010 and 2009 totaled \$583,808, \$528,137, and \$493,121, respectively, which equaled its required contribution for each fiscal year.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

#### **NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The Town of Lunenburg administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town's group health and life insurance plans, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Retirees enrolled in the Medex 3 plan pay 50% of the stated monthly premiums. All other retirees pay 25% of the stated monthly premiums. Retirees enrolled in the life insurance program pay 50% of the life insurance premiums. For fiscal year 2011, the Town contributed \$1.3 million to the plan.

*Annual OPEB Cost and Net OPEB Obligation* – The Town'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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual Required Contribution.....	\$ 4,071,000
Interest on net OPEB obligation.....	254,000
Adjustment to annual required contribution.....	(548,000)
Amortization of actuarial (gains)/losses.....	<u>276,000</u>
Annual OPEB cost (expense).....	4,053,000
Contributions made.....	<u>1,274,000</u>
Increase in net OPEB obligation.....	2,779,000
Net OPEB obligation - beginning of year.....	<u>6,337,000</u>
Net OPEB obligation - end of year.....	<u><u>\$ 9,116,000</u></u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 4,053,000	31%	\$ 9,116,000
6/30/2010	4,564,000	28%	6,337,000
6/30/2009	4,182,000	28%	3,036,000

*Funded Status and Funding Progress* – As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$42,455,413, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$14,459,251, and the ratio of the UAAL to the covered payroll was 293.6 percent.

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

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

In the July 1, 2010, actuarial valuation, actuarial liabilities were determined using the projected unit credit method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 9.8% initially, grading down to 5% in 2014 and thereafter. The UAAL is being amortized over a 30 year period. The remaining amortization period at June 30, 2011 is 27 years.

## NOTE 12 - CONTINGENCIES

The Town participates in a number of Federal award programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2011. During fiscal 2011, the Town made a \$90,000 payment that resulted in the full settlement of a court judgment liability.

## NOTE 13 – LANDFILL CLOSURE

State and federal laws and regulations require the Town to construct a final capping system on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town closed its landfill in fiscal 1995. The Town has reflected a \$255,000 post-closure care liability at June 30, 2011 as an obligation of the governmental activities. This amount is based upon estimates of what it would cost to perform all post-closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Its cost was estimated based on semi-annual sampling for the current monitoring network at the site and estimated costs to maintain the integrity of the landfill cap during the post-closure period.

## NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designation of fund balance.
- GASB Statement #59, *Financial Instruments Omnibus*, was implemented in fiscal year 2011 and did not impact the financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.

- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

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# ***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 17,882,433	\$ 17,882,433	\$ 17,882,433
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	1,213,066	1,213,066	1,213,066
Penalties and interest on taxes.....	-	146,000	146,000	146,000
Fees and rentals.....	-	510,000	510,000	510,000
Payments in lieu of taxes.....	-	1,600	1,600	1,600
Licenses and permits.....	-	300,000	300,000	300,000
Fines and forfeitures.....	-	44,000	44,000	44,000
Intergovernmental.....	-	6,266,584	6,266,584	6,266,584
Special assessments.....	-	95,781	95,781	95,781
Investment income.....	-	50,000	50,000	50,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>26,509,464</b>	<b>26,509,464</b>	<b>26,509,464</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	22,047	1,631,506	1,653,553	1,540,565
Public safety.....	-	2,256,221	2,256,221	2,322,672
Education.....	186,218	15,049,968	15,236,186	15,229,690
Public works.....	20,381	1,097,579	1,117,960	1,189,654
Human services.....	1,137	184,997	186,134	197,539
Culture and recreation.....	-	401,415	401,415	391,669
Pension benefits.....	-	583,808	583,808	583,808
Property and liability insurance.....	-	122,800	122,800	136,797
Employee benefits.....	4,000	2,330,154	2,334,154	2,274,098
Claims and judgments.....	-	-	-	-
State and county charges.....	-	742,046	742,046	742,046
Debt service:				
Principal.....	4	1,392,730	1,392,734	1,392,738
Interest.....	-	707,379	707,379	707,900
<b>TOTAL EXPENDITURES.....</b>	<b>233,787</b>	<b>26,500,603</b>	<b>26,734,390</b>	<b>26,709,176</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(233,787)</b>	<b>8,861</b>	<b>(224,926)</b>	<b>(199,712)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	254,839	254,839	254,839
Transfers out.....	-	(185,000)	(185,000)	(437,591)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>69,839</b>	<b>69,839</b>	<b>(182,752)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(233,787)</b>	<b>78,700</b>	<b>(155,087)</b>	<b>(382,464)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>1,336,381</b>	<b>1,336,381</b>	<b>1,336,381</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (233,787)</b>	<b>\$ 1,415,081</b>	<b>\$ 1,181,294</b>	<b>\$ 953,917</b>

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$ 17,715,006	\$ -	\$ (167,427)
228,736	-	228,736
1,179,520	-	(33,546)
132,513	-	(13,487)
434,785	-	(75,215)
1,607	-	7
309,587	-	9,587
35,797	-	(8,203)
6,216,150	-	(50,434)
58,573	-	(37,208)
21,354	-	(28,646)
<u>26,333,628</u>	<u>-</u>	<u>(175,836)</u>
1,463,041	45,154	32,370
2,317,267	5,159	246
15,105,933	91,858	31,899
1,130,524	59,130	-
185,745	-	11,794
384,364	-	7,305
583,808	-	-
136,797	-	-
2,080,351	6,150	187,597
90,000	-	(90,000)
747,256	-	(5,210)
1,392,738	-	-
707,900	-	-
<u>26,325,724</u>	<u>207,451</u>	<u>176,001</u>
<u>7,904</u>	<u>(207,451)</u>	<u>165</u>
254,839	-	-
(437,591)	-	-
<u>(182,752)</u>	<u>-</u>	<u>-</u>
(174,848)	(207,451)	165
<u>1,336,381</u>	<u>-</u>	<u>-</u>
<u>\$ 1,161,533</u>	<u>\$ (207,451)</u>	<u>\$ 165</u>

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# ***Retirement System Schedules of Funding Progress and Employer Contributions***

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions.

**WORCESTER COUNTY REGIONAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%
01/01/07	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%
01/01/04	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%
01/01/01	316,389,108	426,280,953	109,891,845	74.2%	145,000,347	75.8%
01/01/99	248,967,040	374,455,997	125,488,957	66.5%	119,857,640	104.7%
01/01/98	240,982,371	394,330,873	153,348,502	61.1%	134,803,954	113.8%
01/01/97	174,065,213	291,956,757	117,891,544	59.6%	111,270,545	106.0%

The Town's share of the UAAL, as of January 1, 2010, is approximately 2%.

See notes to required supplementary information.

**WORCESTER COUNTY REGIONAL RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended June 30	System Wide			Town of Lunenburg	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2011	\$ 31,200,000	\$ 31,200,000	100%	\$ 583,808	1.87%
2010	28,800,000	28,800,000	100%	528,137	1.83%
2009	26,400,000	26,400,000	100%	493,121	1.87%
2008	22,998,000	22,998,000	100%	438,971	1.91%
2007	21,983,000	21,983,000	100%	435,584	1.98%
2006	21,013,000	21,013,000	100%	442,008	2.10%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

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# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions compares, over time, the actuarial required contribution with the actual contributions made.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

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Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2010	\$ -	\$ 42,455,000	\$ 42,455,000	0%	\$ 14,459,251	293.6%
7/1/2008	-	40,584,000	40,584,000	0%	13,909,371	291.8%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2011	\$ 4,071,000	\$ 1,274,000	31%
2010	4,609,000	1,263,000	27%
2009	4,182,000	1,146,000	27%

The Town implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009.  
Information for prior years is not available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Projected unit credit
Amortization method.....	30 year level amortization
Remaining amortization period.....	27 years as of June 30, 2011

Actuarial Assumptions:

Investment rate of return.....	4.00% per annum (previously 5.00%)
Medical/drug cost trend rate.....	9.8%, grading down to 5.0% in year 2014 and thereafter

Plan Membership:

Current retirees, beneficiaries, and dependents..	141
Current active members.....	<u>297</u>
Total.....	<u><u>438</u></u>

See notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

1. Budgetary Information

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

The majority of the Town’s appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Town Meeting.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget for the general fund authorized approximately \$26.9 million in appropriations and other amounts to be raised. During fiscal year 2011, Town Meeting approved additional appropriations totaling approximately \$227,000.

The Town Accountant’s office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town’s accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2011, is presented below:

Net change in fund balance - budgetary basis.....	\$ (174,848)
<u>Perspective difference:</u>	
Activity of stabilization fund recorded in the general fund for GAAP.....	(190,104)
<u>Basis of accounting differences:</u>	
Net change in recording expenditures.....	2,383
Recognition of revenue for on-behalf payments.....	3,109,517
Recognition of expenditures for on-behalf payments.....	<u>(3,109,517)</u>
Net change in fund balance - gaap basis.....	<u>\$ (362,569)</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ending June 30, 2011, claims and judgments and state and county charges exceeded appropriations. These over-expenditures will be funded on the subsequent years’ tax levy.

**NOTE B – PENSION PLAN**

The Town contributes to the Worcester Regional Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Worcester Regional Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the system wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date..... January 1, 2010  
 Actuarial Cost Method..... Individual Entry Age Normal  
 Amortization Method..... Increasing dollar amount at 4.0% per year  
 Remaining Amortization Period..... 29 years remaining as of January 1, 2010  
 Asset Valuation Method..... The actuarial value of assets is the market value of assets as of the valuation date reduced by varying percentages of the sum of gains and losses from prior years. The actuarial value of assets is further constrained to be not less than 80% or more than 120% of market value.

Actuarial Assumptions:

Investment rate of return..... 8.0%  
 Projected salary increases..... 3.0%  
 Cost of living adjustments..... 3.0% of the pension amount, capped at \$420.

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	2,686
Inactive participants.....	2,324
Disabled.....	215
Active participants.....	<u>6,236</u>
 Total.....	 <u><u>11,461</u></u>

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Additionally, retired teachers and their spouses receive health insurance through the Group Insurance Commission of the Commonwealth of Massachusetts (GIC). Each participating municipality is assessed for the governmental share of health and life insurance premiums paid on behalf of its teacher retirees by the state.

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

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.