

TOWN OF LUNENBURG, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF LUNENBURG, MASSACHUSETTS
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JUNE 30, 2012

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	2
Basic Financial Statements	10
Statement of Net Assets	11
Statement of Activities	12
Governmental funds – balance sheet	14
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets	15
Governmental funds – statement of revenues, expenditures and changes in fund balances	16
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	17
Proprietary funds – statement of net assets	18
Proprietary funds – statement of revenues, expenses and changes in fund net assets	19
Proprietary funds – statement of cash flows.....	20
Fiduciary funds – statement of fiduciary net assets.....	21
Fiduciary funds – statement of changes in fiduciary net assets	22
Notes to basic financial statements	23
Required Supplementary Information.....	45
Retirement System Schedules.....	49
Retirement system schedule of funding progress	50
Retirement system schedule of employer contributions	51
Other Postemployment Benefit Plan Schedules.....	53
Other postemployment benefit plan schedule of funding progress and employer contributions	54
Other postemployment benefit plan actuarial methods and assumptions	55
Notes to required supplementary information.....	56



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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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town 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, 2012, 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 February 20, 2013, 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.

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

February 20, 2013

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, 2012. 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 \$29.5 million (net assets).
- Of this amount 6% or \$1.8 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 \$2.9 million, an increase of approximately \$404,000 in comparison with the prior year. Total fund balance represents 9% of total general fund expenditures.
- The Town's total debt (short-term and long-term combined) decreased by \$286,000 during the current fiscal year. This was due to the net effect of the issuance of \$13.2 of new debt and \$13.5 million in principal payments on existing debt.
- Fiscal year 2012 was the fourth year since the implementation of GASB Statement #45, which resulted in the recognition of an additional \$2.9 million of other postemployment benefit (OPEB) obligations. As of June 30, 2012 the OPEB liability totaled \$12 million.
- In order to take advantage of favorable interest rates, the Town issued \$9,245,000 of General Obligation Refunding Bonds on June 15, 2012. \$9,720,000 of general obligation bonds were refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. This refunding was undertaken to reduce total debt service payments over the next 10 years by \$638,254 and resulted in an economic gain of \$553,492.

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.

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 \$29.5 million at the close of fiscal 2012.

Net assets of \$26.9 million (91%) 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, \$814,000, (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, 1.8 million or (6%), 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.

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 \$18.2 million at the close of fiscal 2012.

	FY 2012 Governmental Activities	FY 2011 Governmental Activities
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 8,444,387	\$ 8,315,635
Noncurrent assets (excluding capital).....	5,387,387	5,757,551
Capital assets.....	<u>36,078,728</u>	<u>35,702,104</u>
Total assets.....	<u>49,910,502</u>	<u>49,775,290</u>
Liabilities:		
Current liabilities (excluding debt).....	2,067,099	1,945,963
Noncurrent liabilities (excluding debt).....	12,203,000	9,389,000
Current debt.....	1,650,069	1,823,584
Noncurrent debt.....	<u>15,819,406</u>	<u>15,267,298</u>
Total liabilities.....	<u>31,739,574</u>	<u>28,425,845</u>
Net Assets:		
Invested in capital assets, net of related debt.....	23,906,911	24,805,204
Restricted.....	814,446	898,729
Unrestricted.....	<u>(6,550,429)</u>	<u>(4,354,488)</u>
Total net assets.....	<u>\$ 18,170,928</u>	<u>\$ 21,349,445</u>

	FY 2012 Governmental Activities	FY 2011 Governmental Activities
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 2,470,116	\$ 2,820,329
Operating grants and contributions.....	5,685,653	5,240,261
Capital grants and contributions.....	1,100,363	324,483
General Revenues:		
Real estate and personal property taxes.....	18,606,708	17,721,504
Motor vehicle and other excise taxes.....	1,291,334	1,193,384
Penalties and interest on taxes.....	135,752	133,192
Payments in lieu of taxes.....	1,621	1,607
Fines and forfeitures.....	54,555	35,997
Grants and contributions not restricted to specific programs.....	5,820,637	5,796,458
Unrestricted investment income.....	38,247	59,731
Other revenues.....	322,644	291,833
Total revenues.....	<u>35,527,630</u>	<u>33,618,779</u>
Expenses:		
General government.....	3,484,765	2,863,657
Public safety.....	4,887,726	4,809,807
Education.....	25,687,989	24,880,225
Public works.....	2,819,852	2,117,163
Human services.....	429,229	410,715
Culture and recreation.....	742,037	735,504
Claims and judgments.....	-	90,000
Interest.....	685,264	703,164
Total expenses.....	<u>38,736,862</u>	<u>36,610,235</u>
Increase in net assets before transfers.....	<u>(3,209,232)</u>	<u>(2,991,456)</u>
Transfers.....	<u>30,715</u>	<u>30,715</u>
Change in net assets.....	<u><u>\$ (3,178,517)</u></u>	<u><u>\$ (2,960,741)</u></u>

The governmental expenses totaled \$38.7 million of which \$9.3 million (24%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$26.3 million, primarily coming from property taxes, motor vehicle excise and non-restricted state aid.

The governmental net assets decreased by \$3.2 million in fiscal 2012. The key elements of this change are the recognition of an additional \$2.8 million of other postemployment benefit liabilities depreciation expense exceeding debt principal payments raised on the tax levy by \$401,000.

Operating grants and contributions increased by \$445,000 during fiscal year 2012. This increase is mainly attributable to an increase in education grants.

Capital grants and contributions increased by \$776,000 in fiscal year 2012. \$491,000 of the increase is related to proceeds from a FEMA grant, for the October 2011 ice storm, and \$248,000 from a state highway grant.

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$11.3 million at the close of fiscal 2012.

	FY 2012 Business-type Activities	FY 2011 Business-type Activities
Assets:		
Current assets.....	\$ 2,075,361	\$ 2,209,132
Noncurrent assets (excluding capital).....	7,939,309	8,585,127
Capital assets.....	<u>11,341,265</u>	<u>11,610,977</u>
Total assets.....	<u>21,355,935</u>	<u>22,405,236</u>
Liabilities:		
Current liabilities (excluding debt).....	132,136	154,782
Noncurrent liabilities (excluding debt).....	78,000	59,000
Current debt.....	651,379	649,904
Noncurrent debt.....	<u>9,206,263</u>	<u>9,872,207</u>
Total liabilities.....	<u>10,067,778</u>	<u>10,735,893</u>
Net Assets:		
Invested in capital assets, net of related debt.....	2,956,453	2,607,119
Unrestricted.....	<u>8,331,704</u>	<u>9,062,224</u>
Total net assets.....	<u>\$ 11,288,157</u>	<u>\$ 11,669,343</u>
Program revenues:		
Charges for services.....	\$ 716,341	\$ 892,159
Operating grants and contributions.....	220,488	239,245
Capital grants and contributions.....	20,863	484,910
General Revenues:		
Payments in lieu of taxes.....	189,200	266,837
Unrestricted investment income.....	<u>6,869</u>	<u>3,430</u>
Total revenues.....	<u>1,153,761</u>	<u>1,886,581</u>
Expenses:		
Sewer.....	1,271,317	1,213,483
Solid waste/recycling.....	<u>232,915</u>	<u>284,923</u>
Total expenses.....	<u>1,504,232</u>	<u>1,498,406</u>
Increase in net assets before transfers.....	(350,471)	388,175
Transfers.....	<u>(30,715)</u>	<u>(30,715)</u>
Change in net assets.....	<u>\$ (381,186)</u>	<u>\$ 357,460</u>

Business-type net assets of \$3 million (26%) represent the investment in capital assets while \$8.3 million (74%) is unrestricted. The Town's business-type activities net assets decreased by \$381,000 in the current fiscal year, which can primarily be attributed to the sewer operations.

The sewer operations experienced a decrease of \$374,000, which is primarily due to the use of \$66,000 of retained earnings that was used to balance the operating budget and the recognition of \$270,000 of depreciation expense.

The solid waste/recycling operations experienced a decrease of \$6,900, which is in line 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 \$4.6 million. The general fund totaled \$2.9 million of which \$1.4 million relates to stabilization funds that are required to be combined with the general fund to comply with GASB 54. The remaining \$1.7 million is for the non-major governmental funds. Cumulatively there was an increase of \$529,000 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 \$2 million, while total fund balance reached \$2.9 million. \$161,000 of fund balance was assigned for encumbrances and \$720,000 was restricted for future debt service. Total fund balance represents 9% of total general fund expenditures.

In fiscal year 2012, the Town's general fund increased by \$404,000 which is due to positive budgetary results. Revenues were \$76,000 over budget while expenditures were \$313,000 under budget. However, \$161,000 of the unexpended appropriations was encumbered to be expended in fiscal year 2013.

General Fund Budgetary Highlights

The initial budget and the encumbrances and continuing appropriations (original budget) totaled \$27.5 million. Changes during the year consisted largely of allocations between and among departments. The net increase to the final budget totaled \$63,000 and related to a salary reserve, school unemployment and prior year legal fees.

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, 2012, amounts to \$47.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, and infrastructure. The total increase in the Town's investment in capital assets for the current year was approximately \$107,000.

The major governmental capital asset events during the current fiscal year included the renovation of the DPW facility and other Town buildings, fire truck upgrades, and street resurfacing.

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, 2012, totaled \$16.6 million, of which \$7.8 million is related to school construction projects, \$3.5 million is related to the public safety center construction project, an ambulance and a fire truck, \$1.2 million is related to the library construction project and \$4.1 million is related to other CIP related projects.

The sewer enterprise fund has outstanding long-term debt totaling \$9.9 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, 2012

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 4,346,289	\$ 1,549,621	\$ 5,895,910
Investments.....	1,313,067	-	1,313,067
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	399,112	-	399,112
Tax liens and foreclosures.....	887,180	-	887,180
Motor vehicle and other excise taxes.....	104,455	-	104,455
User fees.....	872	59,011	59,883
Departmental and other.....	318,153	-	318,153
Special assessments.....	32,312	370,560	402,872
Intergovernmental.....	1,064,012	96,169	1,160,181
Internal balances.....	(21,065)	32,866	11,801
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special assessments.....	1,108,521	6,529,782	7,638,303
Intergovernmental.....	4,278,866	1,376,661	5,655,527
Capital assets, nondepreciable.....	4,261,654	-	4,261,654
Capital assets, net of accumulated depreciation.....	31,817,074	11,341,265	43,158,339
TOTAL ASSETS.....	49,910,502	21,355,935	71,266,437
LIABILITIES			
CURRENT:			
Warrants payable.....	296,332	29,726	326,058
Accrued payroll.....	1,030,658	2,617	1,033,275
Accrued interest.....	251,176	99,793	350,969
Payroll withholdings.....	246,581	-	246,581
Abandoned property.....	28,923	-	28,923
Other liabilities.....	13,334	-	13,334
Customer deposits payable.....	8,095	-	8,095
Landfill closure.....	17,000	-	17,000
Compensated absences.....	175,000	-	175,000
Bonds payable.....	1,650,069	651,379	2,301,448
NONCURRENT:			
Landfill closure.....	221,000	-	221,000
Compensated absences.....	77,000	-	77,000
Other postemployment benefits obligation.....	11,905,000	78,000	11,983,000
Bonds payable.....	15,819,406	9,206,263	25,025,669
TOTAL LIABILITIES.....	31,739,574	10,067,778	41,807,352
NET ASSETS			
Invested in capital assets, net of related debt.....	23,906,911	2,956,453	26,863,364
Restricted for:			
Permanent funds:			
Expendable.....	106,210	-	106,210
Nonexpendable.....	235,236	-	235,236
Gifts and grants.....	473,000	-	473,000
Unrestricted.....	(6,550,429)	8,331,704	1,781,275
TOTAL NET ASSETS.....	\$ 18,170,928	\$ 11,288,157	\$ 29,459,085

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 3,484,765	\$ 318,268	\$ 14,235	\$ -	\$ (3,152,262)
Public safety.....	4,887,726	543,120	44,248	-	(4,300,358)
Education.....	25,687,989	1,492,566	5,178,220	-	(19,017,203)
Public works.....	2,819,852	22,874	231,703	1,100,265	(1,465,010)
Human services.....	429,229	62,592	15,224	98	(351,315)
Culture and recreation.....	742,037	30,696	42,075	-	(669,266)
Interest.....	685,264	-	159,948	-	(525,316)
Total Governmental Activities...	<u>38,736,862</u>	<u>2,470,116</u>	<u>5,685,653</u>	<u>1,100,363</u>	<u>(29,480,730)</u>
<i>Business-Type Activities:</i>					
Sewer.....	1,271,317	490,401	220,488	20,863	(539,565)
Solid Waste/Recycling.....	<u>232,915</u>	<u>225,940</u>	<u>-</u>	<u>-</u>	<u>(6,975)</u>
Total Business-Type Activities..	<u>1,504,232</u>	<u>716,341</u>	<u>220,488</u>	<u>20,863</u>	<u>(546,540)</u>
Total Primary Government.....	<u>\$ 40,241,094</u>	<u>\$ 3,186,457</u>	<u>\$ 5,906,141</u>	<u>\$ 1,121,226</u>	<u>\$ (30,027,270)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page....	\$ (29,480,730)	\$ (546,540)	\$ (30,027,270)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	18,606,708	-	18,606,708
Tax liens.....	322,644	-	322,644
Motor vehicle and other excise taxes.....	1,291,334	-	1,291,334
Penalties and interest.....	135,752	189,200	324,952
Payments in lieu of taxes.....	1,621	-	1,621
Fines and forfeitures.....	54,555	-	54,555
Grants and contributions not restricted to specific programs.....	5,820,637	-	5,820,637
Unrestricted investment income.....	38,247	6,869	45,116
<i>Transfers, net.....</i>	<u>30,715</u>	<u>(30,715)</u>	<u>-</u>
Total general revenues and transfers.....	<u>26,302,213</u>	<u>165,354</u>	<u>26,467,567</u>
Change in net assets.....	(3,178,517)	(381,186)	(3,559,703)
<i>Net Assets:</i>			
Beginning of year.....	<u>21,349,445</u>	<u>11,669,343</u>	<u>33,018,788</u>
End of year.....	\$ <u><u>18,170,928</u></u>	\$ <u><u>11,288,157</u></u>	\$ <u><u>29,459,085</u></u>

(Concluded)

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 3,424,425	\$ 921,864	\$ 4,346,289
Investments.....	989,609	323,458	1,313,067
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	399,112	-	399,112
Tax liens and foreclosures.....	887,180	-	887,180
Motor vehicle and other excise taxes.....	104,455	-	104,455
User fees.....	-	872	872
Departmental and other.....	318,153	-	318,153
Special assessments.....	1,140,158	675	1,140,833
Intergovernmental.....	4,631,435	711,443	5,342,878
Due from other funds.....	-	11,102	11,102
TOTAL ASSETS.....	\$ 11,894,527	\$ 1,969,414	\$ 13,863,941
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 268,802	\$ 27,530	\$ 296,332
Accrued payroll.....	921,315	109,343	1,030,658
Liabilities due depositors.....	8,095	-	8,095
Payroll withholdings.....	246,581	-	246,581
Abandoned property.....	28,923	-	28,923
Other liabilities.....	13,334	-	13,334
Deferred revenues.....	7,481,814	96,922	7,578,736
Due to other funds.....	20,602	11,565	32,167
TOTAL LIABILITIES.....	8,989,466	245,360	9,234,826
 FUND BALANCES:			
Nonspendable.....	-	235,236	235,236
Restricted.....	719,501	1,603,507	2,323,008
Assigned.....	160,872	-	160,872
Unassigned.....	2,024,688	(114,689)	1,909,999
TOTAL FUND BALANCES.....	2,905,061	1,724,054	4,629,115
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 11,894,527	\$ 1,969,414	\$ 13,863,941

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances.....		\$ 4,629,115
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		36,078,728
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		7,578,736
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(251,176)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(17,469,475)	
Landfill closure.....	(238,000)	
Other postemployment benefits obligation.....	(11,905,000)	
Compensated absences.....	<u>(252,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(29,864,475)</u>
Net assets of governmental activities.....		<u>\$ 18,170,928</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 18,678,148	\$ -	\$ 18,678,148
Tax liens.....	175,305	-	175,305
Motor vehicle and other excise taxes.....	1,286,626	-	1,286,626
Charges for services.....	-	437,730	437,730
Penalties and interest on taxes.....	135,139	676	135,815
Fees and rentals.....	383,507	1,407,286	1,790,793
Payments in lieu of taxes.....	1,621	-	1,621
Licenses and permits.....	203,942	-	203,942
Fines and forfeitures.....	54,355	8,316	62,671
Intergovernmental.....	9,593,697	3,111,585	12,705,282
Departmental and other.....	-	27,463	27,463
Special assessments.....	89,882	17,321	107,203
Contributions.....	-	82,456	82,456
Investment income.....	29,863	8,498	38,361
TOTAL REVENUES.....	30,632,085	5,101,331	35,733,416
EXPENDITURES:			
Current:			
General government.....	1,981,691	209,294	2,190,985
Public safety.....	2,415,681	297,431	2,713,112
Education.....	15,522,385	3,779,702	19,302,087
Public works.....	1,246,582	2,503,690	3,750,272
Human services.....	199,550	55,438	254,988
Culture and recreation.....	381,554	68,267	449,821
Pension benefits.....	3,742,023	-	3,742,023
Property and liability insurance.....	185,847	-	185,847
Employee benefits.....	2,108,788	-	2,108,788
State and county charges.....	918,299	-	918,299
Debt service:			
Principal.....	1,308,584	-	1,308,584
Interest.....	669,614	-	669,614
TOTAL EXPENDITURES.....	30,680,598	6,913,822	37,594,420
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(48,513)	(1,812,491)	(1,861,004)
OTHER FINANCING SOURCES (USES):			
Issuance of bonds.....	-	1,815,000	1,815,000
Issuance of refunding bonds.....	8,959,565	-	8,959,565
Premium from issuance of bonds.....	157,024	-	157,024
Premium from issuance of refunding bonds.....	1,208,530	-	1,208,530
Payments to refunded bond escrow agent.....	(9,780,918)	-	(9,780,918)
Transfers in.....	41,587	133,765	175,352
Transfers out.....	(133,765)	(10,872)	(144,637)
TOTAL OTHER FINANCING SOURCES (USES).....	452,023	1,937,893	2,389,916
NET CHANGE IN FUND BALANCES.....	403,510	125,402	528,912
FUND BALANCES AT BEGINNING OF YEAR.....	2,501,551	1,598,652	4,100,203
FUND BALANCES AT END OF YEAR.....	\$ 2,905,061	\$ 1,724,054	\$ 4,629,115

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, 2012

Net change in fund balances - total governmental funds..... \$ 528,912

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.....	2,086,304
Depreciation expense.....	<u>(1,709,681)</u>

Net effect of reporting capital assets..... 376,623

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.....

(205,786)

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.

Issuance of bonds.....	(1,815,000)
Issuance of refunding debt.....	(8,959,565)
Payments to refunded bond escrow agent.....	9,780,918
Premium from issuance of refunding bonds.....	(1,208,530)
Debt service principal payments.....	<u>1,308,584</u>

Net effect of reporting long-term debt..... (893,593)

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.....	19,000
Net change in accrued interest on long-term debt.....	(172,673)
Net change in landfill closure liability.....	17,000
Net change in other postemployment benefits obligation.....	<u>(2,848,000)</u>

Net effect of recording long-term liabilities and amortizing deferred losses.. (2,984,673)

Change in net assets of governmental activities..... \$ (3,178,517)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-type Activities - Enterprise Funds		
	Sewer	Solid Waste/ Recycling	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 1,539,400	\$ 10,221	\$ 1,549,621
Receivables, net of allowance for uncollectibles:			
User fees.....	59,011	-	59,011
Due from other funds.....	24,544	8,322	32,866
Special assessments.....	370,560	-	370,560
Intergovernmental.....	96,169	-	96,169
Total current assets.....	<u>2,089,684</u>	<u>18,543</u>	<u>2,108,227</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	1,376,661	-	1,376,661
Special assessments.....	6,529,782	-	6,529,782
Capital assets, net of accumulated depreciation...	11,341,265	-	11,341,265
Total noncurrent assets.....	<u>19,247,708</u>	<u>-</u>	<u>19,247,708</u>
TOTAL ASSETS.....	<u>21,337,392</u>	<u>18,543</u>	<u>21,355,935</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	11,183	18,543	29,726
Accrued payroll.....	2,617	-	2,617
Accrued interest.....	99,793	-	99,793
Bonds payable.....	651,379	-	651,379
Total current liabilities.....	<u>764,972</u>	<u>18,543</u>	<u>783,515</u>
NONCURRENT:			
Other postemployment benefits obligation.....	78,000	-	78,000
Bonds payable.....	9,206,263	-	9,206,263
Total noncurrent liabilities.....	<u>9,284,263</u>	<u>-</u>	<u>9,284,263</u>
TOTAL LIABILITIES.....	<u>10,049,235</u>	<u>18,543</u>	<u>10,067,778</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	2,956,453	-	2,956,453
Unrestricted.....	8,331,704	-	8,331,704
TOTAL NET ASSETS.....	<u>\$ 11,288,157</u>	<u>\$ -</u>	<u>\$ 11,288,157</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Solid Waste/ Recycling</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 456,871	\$ 225,940	\$ 682,811
Connection fee.....	32,780	-	32,780
Licenses and permits.....	750	-	750
TOTAL OPERATING REVENUES	490,401	225,940	716,341
<u>OPERATING EXPENSES:</u>			
Salaries, wages, and fringe benefits	147,382	-	147,382
Maintenance and operations.....	410,462	232,915	643,377
Depreciation.....	269,712	-	269,712
TOTAL OPERATING EXPENSES	827,556	232,915	1,060,471
OPERATING INCOME (LOSS).....	(337,155)	(6,975)	(344,130)
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment income.....	6,773	96	6,869
Interest expense.....	(443,761)	-	(443,761)
Special assessments.....	20,863	-	20,863
Penalties and interest.....	189,200	-	189,200
Intergovernmental.....	220,488	-	220,488
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(6,437)	96	(6,341)
INCOME (LOSS) BEFORE TRANSFERS.....	(343,592)	(6,879)	(350,471)
<u>TRANSFERS:</u>			
Transfers out.....	(30,715)	-	(30,715)
CHANGE IN NET ASSETS.....	(374,307)	(6,879)	(381,186)
NET ASSETS AT BEGINNING OF YEAR.....	11,662,464	6,879	11,669,343
NET ASSETS AT END OF YEAR.....	\$ 11,288,157	\$ -	\$ 11,288,157

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds		
	Sewer	Solid Waste/ Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users.....	\$ 671,894	\$ 248,180	\$ 920,074
Payments to vendors.....	(410,812)	(251,513)	(662,325)
Payments to employees.....	(127,635)	-	(127,635)
NET CASH FROM OPERATING ACTIVITIES.....	133,447	(3,333)	130,114
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers out.....	(30,715)	-	(30,715)
Advances to/from other funds.....	54,293	(14,972)	39,321
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	23,578	(14,972)	8,606
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	285,435	-	285,435
Special assessments.....	596,463	-	596,463
Principal payments on bonds and notes.....	(861,202)	-	(861,202)
Interest expense.....	(270,997)	-	(270,997)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(250,301)	-	(250,301)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	6,773	96	6,869
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(86,503)	(18,209)	(104,712)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,625,903	28,430	1,654,333
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,539,400	\$ 10,221	\$ 1,549,621
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ (337,155)	\$ (6,975)	\$ (344,130)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	269,712	-	269,712
Other receipts from customers.....	189,200	-	189,200
Changes in assets and liabilities:			
User fees.....	(7,707)	22,240	14,533
Warrants payable.....	(350)	(18,598)	(18,948)
Accrued payroll.....	747	-	747
Other postemployment benefits obligation.....	19,000	-	19,000
Total adjustments.....	470,602	3,642	474,244
NET CASH FROM OPERATING ACTIVITIES.....	\$ 133,447	\$ (3,333)	\$ 130,114
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Intergovernmental debt service subsidy.....	\$ 309,190	\$ -	\$ 309,190

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ <u>434,520</u>
LIABILITIES	
Due to other funds.....	<u>11,801</u>
NET ASSETS	
Held in trust for other purposes.....	\$ <u><u>422,719</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ 3,016
Net investment income (loss):	
Interest.....	<u>6,716</u>
TOTAL ADDITIONS.....	<u>9,732</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>11,801</u>
CHANGE IN NET ASSETS.....	(2,069)
NET ASSETS AT BEGINNING OF YEAR.....	<u>424,788</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 422,719</u>

See notes to basic financial statements.

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 fund is 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 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 1st 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 1st, November 1st, February 1st and May 1st 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. Town Meeting is the highest level of decision-making authority for the government that can, by adoption of an article prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the article remains in place until a similar action is taken to remove or revise the limitation.

“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. Town Meeting may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

“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.

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

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, 2012 within the special revenue and permanent funds. These deficits will be funded with grants, 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 \$5,865,473 and the bank balance totaled \$6,157,411. Of the bank balance, \$2,480,345 was covered by Federal Depository Insurance, \$1,231,763 was covered by the Depositor's Insurance Fund, \$2,175,314 was covered by the Share Insurance Fund and \$269,989 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2012, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>1-5 Years</u>
<u>Debt Securities</u>		
Government Sponsored Enterprises.....	\$ 904,307	\$ 904,307
Corporate Bonds.....	260,425	260,425
Bond Mutual Funds.....	136,307	136,307
	<u>1,301,039</u>	<u>\$ 1,301,039</u>
<u>Other Investments</u>		
Equity Mutual Funds.....	12,028	
Money Market Mutual Funds.....	241,041	
MMDT.....	223,916	
	<u>477,024</u>	
Total Investments.....	<u>\$ 1,778,024</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 \$1,164,732 because the 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 the government sponsored enterprise securities AAA, \$105,185 of corporate bonds were rated AA and \$155,240 were rated BBB. The Town’s investments in bond mutual funds, money market mutual funds and MMDT are unrated. 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, 2012, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 438,112	\$ (39,000)	\$ 399,112
Tax liens and foreclosures.....	887,180	-	887,180
Motor vehicle and other excise taxes.....	173,454	(68,999)	104,455
Water user fees.....	872	-	872
Departmental and other.....	512,153	(194,000)	318,153
Special assessments.....	1,140,833	-	1,140,833
Intergovernmental.....	<u>5,342,878</u>	<u>-</u>	<u>5,342,878</u>
Total.....	<u>\$ 8,495,482</u>	<u>\$ (301,999)</u>	<u>\$ 8,193,483</u>

At June 30, 2012, receivables for the sewer and sanitation/recycling enterprise funds are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Sewer user fees.....	\$ 59,011	\$ -	\$ 59,011
Sewer special assessments.....	6,900,342	-	6,900,342
Sewer intergovernmental.....	<u>1,472,830</u>	<u>-</u>	<u>1,472,830</u>
Total.....	<u>\$ 8,432,183</u>	<u>\$ -</u>	<u>\$ 8,432,183</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:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 400,431	\$ -	\$ 400,431
Tax liens and foreclosures.....	887,180	-	887,180
Motor vehicle and other excise taxes.....	104,455	-	104,455
User fees.....	-	872	872
Departmental and other.....	318,153	-	318,153
Special assessments.....	1,140,160	673	1,140,833
Intergovernmental.....	<u>4,631,435</u>	<u>95,377</u>	<u>4,726,812</u>
Total.....	<u>\$ 7,481,814</u>	<u>\$ 96,922</u>	<u>\$ 7,578,736</u>

NOTE 4 - CAPITAL ASSETS

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

Governmental Activities:	<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.....	27,168,516	1,373,325	-	28,541,841
Machinery and equipment.....	4,687,668	47,203	-	4,734,871
Infrastructure.....	<u>24,648,694</u>	<u>665,776</u>	<u>(121,453)</u>	<u>25,193,017</u>
Total capital assets being depreciated.....	<u>56,504,878</u>	<u>2,086,304</u>	<u>(121,453)</u>	<u>58,469,729</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(7,523,644)	(689,194)	-	(8,212,838)
Machinery and equipment.....	(2,702,043)	(283,792)	-	(2,985,835)
Infrastructure.....	<u>(14,838,741)</u>	<u>(736,695)</u>	<u>121,453</u>	<u>(15,453,983)</u>
Total accumulated depreciation.....	<u>(25,064,428)</u>	<u>(1,709,681)</u>	<u>121,453</u>	<u>(26,652,656)</u>
Total capital assets being depreciated, net.....	<u>31,440,450</u>	<u>376,623</u>	<u>-</u>	<u>31,817,073</u>
Total governmental activities capital assets, net.....	<u>\$ 35,702,104</u>	<u>\$ 376,623</u>	<u>\$ -</u>	<u>\$ 36,078,727</u>
Sewer Activities:	<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>(1,874,621)</u>	<u>(269,712)</u>	<u>-</u>	<u>(2,144,333)</u>
Total sewer activities capital assets, net.....	<u>\$ 11,610,977</u>	<u>\$ (269,712)</u>	<u>\$ -</u>	<u>\$ 11,341,265</u>

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

Governmental Activities:	
General government.....	\$ 43,323
Public safety.....	304,771
Education.....	475,593
Public works.....	822,202
Culture and recreation.....	<u>63,792</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,709,681</u>
Business-Type Activities:	
Sewer.....	<u>\$ 269,712</u>

NOTE 5 - INTERFUND TRANSFERS/BALANCES

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

Operating Transfers Out:	Operating Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 133,765	\$ 133,765 (1)
Nonmajor Governmental Funds.....	10,872	-	10,872 (2)
Sewer Enterprise Fund.....	30,715	-	30,715 (3)
Total.....	\$ 41,587	\$ 133,765	\$ 175,352

- (1) Represents a budgeted transfer to fund the fiscal 2012 capital plan.
- (2) Represents budgeted transfers from other available funds to the general fund.
- (3) Represents a budgeted transfer from the sewer enterprise fund to the general fund for indirect costs.

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

Due to Other Funds:	Due From Other Funds:			
	Nonmajor Governmental Funds	Sewer Enterprise Fund	Waste Water Recycling	Total
General Fund.....	\$ -	\$ 20,602	\$ -	\$ 20,602
Nonmajor Governmental Funds.....	-	3,243	8,322	11,565
Private Purpose Trust Funds.....	11,102	699	-	11,801
Total.....	\$ 11,102	\$ 24,544	\$ 8,322	\$ 43,968

The interfund balances resulted from the time lag between the dates that charges between funds are made and the date that the corresponding bank transfers 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, 2012, 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	\$ -
BAN	Municipal Purpose.....	0.80	6/29/2012	-	1,300,000	1,300,000	-
Total governmental activities short-term debt.....				\$ 515,000	\$ 1,300,000	\$ 1,815,000	\$ -

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, 2012, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Issue:	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Municipal Purpose Bonds of 1998.....	2019	\$ 195,676	0.00%	\$ 86,956	\$ -	\$ 10,872	\$ 76,084
Municipal Purpose Bonds of 2003.....	2023	16,983,000	3.62%	11,040,000	-	10,220,000	820,000
Municipal Purpose Bonds of 2005.....	2025	3,539,000	3.94%	2,415,000	-	185,000	2,230,000
Municipal Purpose Bonds of 2007.....	2025	601,000	3.94%	335,000	-	45,000	290,000
MWPAT Water Bond of 2009.....	2029	335,000	2.00%	306,138	-	14,272	291,866
Water Bond of 2009.....	2047	1,153,000	4.38%	1,127,788	-	13,440	1,114,348
Municipal Purpose Bonds of 2010.....	2017	1,515,000	2-4%	1,265,000	-	240,000	1,025,000
Municipal Purpose Bonds of 2012.....	2023	1,815,000	3-4%	-	1,815,000	-	1,815,000
Municipal Purpose Refunding Bonds of 2012...	2023	8,959,565	3-4%	-	8,959,565	-	8,959,565
Total governmental bonds payable.....				16,575,882	10,774,565	10,728,584	16,621,863
Unamortized premiums				-	1,208,530	-	1,208,530
Deferred charges on refunding				-	(360,918)	-	(360,918)
Total.....				\$ 16,575,882	\$ 11,622,177	\$ 10,728,584	\$ 17,469,475

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013..... \$	1,529,460 \$	631,746 \$	2,161,206
2014.....	1,491,403	573,226	2,064,629
2015.....	1,502,653	529,733	2,032,386
2016.....	1,523,754	472,886	1,996,640
2017.....	1,454,734	414,996	1,869,730
2018.....	1,280,743	362,199	1,642,942
2019.....	1,296,946	311,200	1,608,146
2020.....	1,302,164	260,072	1,562,236
2021.....	1,298,440	208,251	1,506,691
2022.....	1,324,613	157,212	1,481,825
2023.....	1,306,009	102,724	1,408,733
2024.....	220,611	50,540	271,151
2025.....	136,961	43,250	180,211
2026.....	43,361	39,674	83,035
2027.....	44,813	38,222	83,035
2028.....	46,320	36,715	83,035
2029.....	47,884	35,152	83,036
2030.....	29,050	33,734	62,784
2031.....	30,321	32,462	62,783
2032.....	31,648	31,136	62,784
2033.....	33,032	29,752	62,784
2034.....	34,477	28,307	62,784
2035.....	35,986	26,799	62,785
2036.....	37,560	25,224	62,784
2037.....	39,203	23,582	62,785
2038.....	40,919	21,867	62,786
2039.....	42,709	20,077	62,786
2040.....	44,577	18,209	62,786
2041.....	46,528	16,259	62,787
2042.....	48,563	14,224	62,787
2043.....	50,688	12,099	62,787
2044.....	52,905	9,882	62,787
2045.....	55,220	7,568	62,788
2046.....	57,636	5,152	62,788
2047.....	59,972	2,631	62,603
Totals..... \$	<u>16,621,863</u> \$	<u>4,626,762</u> \$	<u>21,248,625</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 \$22,824. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$76,084. 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 2012 interest subsidy totaled \$3,594.

Bonds Payable Schedule – Sewer Enterprise Fund

Issue:	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
MWPAT Sewer of 1997.....	2017	\$ 165,000	1.80%	\$ 59,370	\$ -	\$ 9,180	\$ 50,190
MWPAT Sewer of 2000.....	2020	397,049	1.83%	205,000	-	20,000	185,000
MWPAT Sewer of 2001.....	2021	2,116,685	0.00%	1,240,756	-	110,183	1,130,573
Sewer Bond of 2003.....	2023	602,000	3.62%	360,000	-	330,000	30,000
MWPAT Sewer of 2004.....	2024	6,856,402	0.00%	4,580,191	-	285,251	4,294,940
Sewer Bond of 2005.....	2025	439,000	3.94%	285,000	-	25,000	260,000
Sewer Bonds of 2007.....	2025	1,904,000	3.94%	1,485,000	-	105,000	1,380,000
MWPAT Sewer of 2008.....	2028	769,246	0.00%	633,211	-	45,345	587,866
Sewer Bond of 2009.....	2047	1,711,000	4.38%	1,673,583	-	19,945	1,653,638
Sewer Refunding Bond of 2012.....	2023	285,435	3-4%	-	285,435	-	285,435
Total enterprise bonds payable.....				\$ 10,522,111	\$ 285,435	\$ 949,904	\$ 9,857,642

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
2013.....	\$ 651,379	\$ 435,237	\$ 1,086,616
2014.....	667,032	403,612	1,070,644
2015.....	686,375	373,430	1,059,805
2016.....	696,957	339,283	1,036,240
2017.....	712,540	305,105	1,017,645
2018.....	721,912	269,398	991,310
2019.....	742,124	233,699	975,823
2020.....	767,243	198,916	966,159
2021.....	772,772	168,477	941,249
2022.....	649,278	137,271	786,549
2023.....	648,520	108,985	757,505
2024.....	626,024	80,144	706,168
2025.....	173,914	62,884	236,798
2026.....	50,437	56,841	107,278
2027.....	52,026	55,252	107,278
2028.....	53,685	53,594	107,279
2029.....	41,302	51,862	93,164
2030.....	43,109	50,055	93,164
2031.....	44,995	48,169	93,164
2032.....	46,963	46,201	93,164
2033.....	49,018	44,146	93,164
2034.....	51,162	42,002	93,164
2035.....	53,401	39,763	93,164
2036.....	55,737	37,427	93,164
2037.....	58,175	34,989	93,164
2038.....	60,721	32,443	93,164
2039.....	63,377	29,786	93,163
2040.....	66,150	27,014	93,164
2041.....	69,044	24,120	93,164
2042.....	72,065	21,100	93,165
2043.....	75,218	17,946	93,164
2044.....	78,508	14,656	93,164
2045.....	81,943	11,221	93,164
2046.....	85,528	7,636	93,164
2047.....	89,008	3,894	92,902
Totals.....	\$ 9,857,642	\$ 3,866,557	\$ 13,724,199

In order to take advantage of favorable interest rates, the Town issued \$9,245,000 of General Obligation Refunding Bonds on June 15, 2012. \$9,720,000 of general obligation bonds were refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$361,000. This amount is recorded as deferred charges on refunding and is being amortized over the life of the refunded debt, which is the same as the remaining life of the refunded debt. This refunding was undertaken to reduce total debt service payments over the next 10 years by \$638,254 and resulted in an economic gain of \$553,492. At June 30, 2012, \$9,720,000 of bonds outstanding from the refunding is considered defeased.

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 \$1,472,830 and interest costs for \$1,221,489. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$4,826,177. The principal subsidies are guaranteed and therefore a \$1,472,830 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 2012 principal and interest subsidies totaled \$88,702 and \$220,488, 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 \$5,490,000 will be received in future fiscal years. Of this amount, approximately \$859,000 represents reimbursement of long-term interest costs, and approximately \$4,631,000 represents reimbursement of approved construction costs. Accordingly, a \$4,631,000 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, 2012, the Town had the following authorized and unissued debt.

Sewer construction.....	\$	312,972
Building renovations.....		125,000
School heating system.....		<u>56,550</u>
Total.....	\$	<u>494,522</u>

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Long-term bonds.....	\$ 16,575,882	\$ 10,774,565	\$ (10,728,584)	\$ 16,621,863	\$ 1,529,460
Unamortized premiums	-	1,208,530	-	1,208,530	171,965
Deferred charges on refunding	-	(360,918)	-	(360,918)	(51,356)
Bonds payable, net.....	16,575,882	11,622,177	(10,728,584)	17,469,475	1,650,069
Other postemployment benefits.....	9,057,000	4,233,000	(1,385,000)	11,905,000	-
Landfill closure.....	255,000	-	(17,000)	238,000	17,000
Compensated absences.....	271,000	158,000	(177,000)	252,000	175,000
Total governmental.....	<u>\$ 26,158,882</u>	<u>\$ 16,013,177</u>	<u>\$ (12,307,584)</u>	<u>\$ 47,333,950</u>	<u>\$ 1,842,069</u>
Business-Type Activities:					
Long-term bonds.....	\$ 10,522,111	\$ 285,435	\$ (949,904)	\$ 9,857,642	\$ 651,379
Other postemployment benefits.....	59,000	28,000	(9,000)	78,000	-
Total business-type.....	<u>\$ 10,581,111</u>	<u>\$ 313,435</u>	<u>\$ (958,904)</u>	<u>\$ 9,935,642</u>	<u>\$ 651,379</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

GASB 54 provides for two major types of fund balances, 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.

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 \$989,609 and \$364,883, respectively and are reported as unassigned fund balance within the general fund.

The Town has classified its fund balances with the following hierarchy:

	Governmental Funds		
	General	Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances			
Nonspendable:			
Permanent fund principal..... \$	-	\$ 235,236	\$ 235,236
Restricted for:			
MSBA debt.....	719,501	-	719,501
Town public access cable committee.....	-	245,749	245,749
Sale of lots and graves.....	-	179,575	179,575
Town revolving funds.....	-	126,841	126,841
Town gift and grant funds.....	-	363,519	363,519
School lunch.....	-	14,770	14,770
School revolving funds.....	-	82,691	82,691
School gift and grant funds.....	-	365,879	365,879
Town capital projects.....	-	111,236	111,236
School capital projects.....	-	7,037	7,037
Perpetual care.....	-	848	848
Other permanent funds.....	-	105,362	105,362
Assigned to:			
General government.....	25,215	-	25,215
Public safety.....	23,583	-	23,583
Education.....	61,521	-	61,521
Public works.....	41,230	-	41,230
Human services.....	1,995	-	1,995
Culture and recreation.....	5,174	-	5,174
Property and liability insurance.....	2,154	-	2,154
Unassigned.....	<u>2,024,688</u>	<u>(114,689)</u>	<u>1,909,999</u>
Total Fund Balances (Deficit)..... \$	<u>2,905,061</u>	<u>\$ 1,724,054</u>	<u>\$ 4,629,115</u>

The Town’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

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 \$3,144,252 for the fiscal year ended June 30, 2012 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, 2012, 2011 and 2010 totaled \$597,771, \$583,808, and \$528,137, 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 2012, the Town contributed \$1.4 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.....	\$	4,169,000
Interest on net OPEB obligation.....		365,000
Adjustment to annual required contribution.....		(548,000)
Amortization of actuarial (gains)/losses.....		<u>275,000</u>
 Annual OPEB cost (expense).....		 4,261,000
 Contributions made.....		 <u>(1,394,000)</u>
 Increase in net OPEB obligation.....		 2,867,000
 Net OPEB obligation - beginning of year.....		 <u>9,116,000</u>
 Net OPEB obligation - end of year.....	\$	 <u><u>11,983,000</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 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 4,261,000	33%	\$ 11,983,000
6/30/2011	4,053,000	34%	9,116,000
6/30/2010	4,564,000	28%	6,337,000

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, 2012 is 26 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2012.

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 \$238,000 post-closure care liability at June 30, 2012 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 2012, the following GASB pronouncements were implemented:

- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.

- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- 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.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections — 2012, an amendment of GASB Statement 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 18,812,349	\$ 18,812,349	\$ 18,812,349
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	1,255,523	1,255,523	1,255,523
Penalties and interest on taxes.....	-	132,000	132,000	132,000
Fees and rentals.....	-	484,200	484,200	484,200
Payments in lieu of taxes.....	-	1,600	1,600	1,600
Licenses and permits.....	-	276,000	276,000	276,000
Fines and forfeitures.....	-	33,000	33,000	33,000
Intergovernmental.....	-	6,286,105	6,286,105	6,286,105
Special assessments.....	-	94,781	94,781	94,781
Investment income.....	-	22,000	22,000	22,000
TOTAL REVENUES.....	-	27,397,558	27,397,558	27,397,558
EXPENDITURES:				
Current:				
General government.....	45,154	1,682,705	1,727,859	1,664,183
Public safety.....	5,159	2,399,344	2,404,503	2,441,853
Education.....	91,858	15,537,393	15,629,251	15,629,251
Public works.....	59,130	1,149,271	1,208,401	1,294,488
Human services.....	-	200,650	200,650	215,682
Culture and recreation.....	-	419,470	419,470	394,839
Pension benefits.....	-	597,771	597,771	597,771
Property and liability insurance.....	-	143,914	143,914	188,001
Employee benefits.....	6,150	2,280,460	2,286,610	2,252,962
State and county charges.....	-	801,940	801,940	804,726
Debt service:				
Principal.....	-	1,334,430	1,334,430	1,308,584
Interest.....	-	644,549	644,549	669,614
TOTAL EXPENDITURES.....	207,451	27,191,897	27,399,348	27,461,954
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(207,451)	205,661	(1,790)	(64,396)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers in.....	-	41,587	41,587	41,587
Transfers out.....	-	(133,765)	(133,765)	(133,765)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(92,178)	(92,178)	(92,178)
NET CHANGE IN FUND BALANCE.....	(207,451)	113,483	(93,968)	(156,574)
BUDGETARY FUND BALANCE, Beginning of year.....	-	1,161,533	1,161,533	1,161,533
BUDGETARY FUND BALANCE, End of year.....	\$ (207,451)	\$ 1,275,016	\$ 1,067,565	\$ 1,004,959

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$ 18,678,148	\$ -	\$ (134,201)
175,305	-	175,305
1,286,625	-	31,102
135,139	-	3,139
383,507	-	(100,693)
1,621	-	21
203,942	-	(72,058)
54,355	-	21,355
6,449,445	-	163,340
89,882	-	(4,899)
15,389	-	(6,611)
<u>27,473,358</u>	<u>-</u>	<u>75,800</u>
1,594,514	25,215	44,454
2,415,681	23,583	2,589
15,522,385	61,521	45,345
1,246,582	41,230	6,676
199,550	1,995	14,137
381,554	5,174	8,111
597,771	-	-
185,847	2,154	-
2,108,788	-	144,174
918,299	-	(113,573)
1,308,584	-	-
669,614	-	-
<u>27,149,169</u>	<u>160,872</u>	<u>151,913</u>
<u>324,189</u>	<u>(160,872)</u>	<u>227,713</u>
157,024	-	157,024
41,587	-	-
(133,765)	-	-
<u>64,846</u>	<u>-</u>	<u>157,024</u>
389,035	(160,872)	384,737
1,161,533	-	-
<u>\$ 1,550,568</u>	<u>\$ (160,872)</u>	<u>\$ 384,737</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
2012	\$ 33,072,000	\$ 33,072,000	100%	\$ 597,771	1.81%
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

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
2012	\$ 4,169,000	\$ 1,394,000	33%
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

Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Projected unit credit
Amortization method.....	30 year level amortization
Remaining amortization period.....	26 years as of June 30, 2012

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 2012 approved budget for the general fund authorized approximately \$27.5 million in appropriations and other amounts to be raised. During fiscal year 2012, Town Meeting approved additional appropriations totaling approximately \$66,000.

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, 2012, is presented below:

Net change in fund balance - budgetary basis.....	\$ 389,035
<u>Perspective difference:</u>	
Activity of stabilization fund recorded in the general fund for GAAP.....	16,855
<u>Basis of accounting differences:</u>	
Net change in recording expenditures.....	(2,380)
Recognition of revenue for on-behalf payments.....	(3,144,252)
Recognition of expenditures for on-behalf payments.....	<u>3,144,252</u>
Net change in fund balance - gaap basis.....	<u>\$ 403,510</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ending June 30, 2012, 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.