

THE TOWN OF LUNENBURG, MASSACHUSETTS

Lunenburg, incorporated in 1728, is governed by the open town meeting form of government. Occupying a land area of approximately 26.4 square miles, the Town is located in north central Massachusetts approximately 43 miles from Boston, it is bordered on the west by the Town of Ashby and the City of Fitchburg, on the south by the Town of Lancaster and the City of Leominster, on the east by the Town of Shirley, and on the north by the Town of Townsend.

GOVERNING BODIES AND OFFICERS

Local legislative decisions are made by an open town meeting consisting of all registered voters in the Town. Subject to the legislative decisions made by town meeting, the affairs of the Town are generally administered by a board of five selectmen and a Town Manager. Local school affairs are administered by an elected school committee of seven persons while local taxes are assessed by a board of three assessors all appointed on an at-large basis for staggered three-year terms.

The following is a list of the principal executive officers:

<u>Title</u>	<u>Name</u>	<u>Manner of Selection</u>	<u>Length of Term</u>	<u>Expiration of Term</u>
Chrm Board of Selectmen	David Matthews	Elected	3 Years	2014
Vice- Chrm Selectman	Thomas Alonzo	Elected	3 Years	2014
Clerk-Selectman	Carle E. B. Sund	Elected	3 Years	2013
Selectman	Paula Bertram	Elected	3 Years	2015
Selectman	Steven M. deBetencourt	Elected	3 Years	2013
Town Manager	Kerry Speidel	Appointed	3 Years	2013
Town Accountant	Karen M. Brochu	Appointed	5 Years	2016
Treasurer/Tax Collector	Shelley A. McCaie	Appointed	Indefinite	Indefinite
Town Clerk	Kathryn M. Herrick	Elected	3 Years	2013
Town Counsel	Kopelman & Paige P.C.	Appointed	Indefinite	Indefinite

SERVICES

The Town provides general governmental services for the territory within its boundaries including police and fire protection, public education in grades pre-school through 12, a library, streets, parks and recreations. A majority of Town residents have private septic systems and one small area of Town is serviced by the Fitchburg system. The Lunenburg Water District provides water service to approximately 75% of the Town, the remaining 25% have private wells.

Legislation was enacted in 1997 abolishing the county governments of Franklin and Middlesex counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the county in the payment of its general obligation notes. The legislation also abolished the county governments of Hampden and Worcester counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999 and July 1, 2000, respectively. The legislation also requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the

county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county governments in other counties.

AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary loans in anticipation of revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid may be incurred by the Treasurer with the approval of the Selectmen.

DEBT LIMITS

General Debt Limit. The General Debt Limit of a city or town consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. A city or town can authorize debt up to this amount without state approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See Taxation to Meet Deficits herein.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

TYPES OF OBLIGATIONS

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain purposes, including self-supporting enterprise purposes, certain state-aided school projects and certain community preservation and open space projects and certain small municipal renewable energy generating facilities projects, as well as for those projects for which debt service has been exempted from property tax

limitations. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first principal payment of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the state from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally, they must mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The Town does not have an electric department.

DEBT (1)

The following shows the direct debt outstanding as of March 15, 2013:

Long-Term Indebtedness (2)

Within the general debt limit

Sewers & Drains	\$ 8,014,388	
Land Acquisition	287,133	
Schools	7,728,229	
Other Building	5,429,203	
Streets Sidewalks & Parking	0	
Departmental Equipment	865,000	
Athletic & Recreational Facilities	<u>250,000</u>	
Total Within the General Debt Limit		<u>\$22,573,954</u>

Outside the general debt limit:

Sewers	\$ 1,645,000	
Water	1,114,345	
Other Outside General	<u>205,212</u>	
Total Outside the General Debt Limit		<u>\$ 2,964,557</u>
Total Long-Term Indebtedness (3)		<u>\$25,538,511</u>

Temporary Loans in anticipation of:

Revenue	0	
Bonds	0	
Grants	<u>0</u>	
Total Temporary Loans		<u>\$ 0</u>
Total Direct Debt		<u>\$25,538,511</u>

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) At the present time the normal General Debt Limit is \$66,544,425 and the Double General Debt Limit is \$133,088,850.

(3) \$11,727,644 has been exempted from the provision of Proposition 2 1/2

(4) \$9,799,388 is self-supporting.

Authorized Unissued Debt and Prospective Financing

The Town has the following authorized unissued debt:

<u>Amount</u>	<u>Purpose</u>
\$ 284,264	Sewer Construction
28,708	Sewer Construction
125,000	Building Renovations
<u>56,550</u>	School Heating System
<u>\$494,522</u>	

The timing of the next issuance of bonds has not been determined.

FIVE YEARS OUTSTANDING DEBT (1)

	As of June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Within the General Debt Limit					
Sewers & Drains	\$ 8,509,510	\$ 9,058,250	\$ 9,578,524	\$ 9,509,935	\$ 8,249,190
Land Acquisition	287,133	330,000	445,000	570,000	695,000
Schools	7,848,229	8,440,000	9,034,000	9,490,000	10,020,000
Other Building	5,519,203	4,740,000	5,120,000	5,500,000	5,914,988
Streets Sidewalks & Parking	0	10,000	25,000	40,000	55,000
Departmental Equipment	1,000,000	960,000	1,120,000	234,183	280,020
Athletic & Recreational Facilities	305,000	370,000	431,000	0	0
Architectural & Engineering Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>584,071</u>	<u>277,656</u>
Total Within the General Debt Limit	<u>23,469,075</u>	<u>23,908,250</u>	<u>25,753,524</u>	<u>25,928,189</u>	<u>25,491,854</u>
Outside the General Debt Limit					
Sewers	\$ 1,670,000	\$ 1,805,000	\$ 1,935,000	\$ 2,075,000	\$ 2,210,000
Water	1,114,345	1,127,786	1,140,663	1,153,000	0
Other Outside General	<u>226,084</u>	<u>256,956</u>	<u>292,828</u>	<u>334,517</u>	<u>419,564</u>
Total Outside the General Debt Limit	<u>3,010,429</u>	<u>3,189,742</u>	<u>3,368,491</u>	<u>3,562,517</u>	<u>2,629,564</u>
Total Long-Term Indebtedness	<u>\$26,479,505</u>	<u>\$27,097,992</u>	<u>\$29,122,015</u>	<u>\$29,490,706</u>	<u>\$28,121,418</u>

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

Bonded Debt vs. Population, Valuations and Income

	As of June 30				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Amount (1)	\$26,479,505	\$27,097,992	\$29,122,015	\$29,490,706	\$28,121,418
Per Capita (2)	2,616	2,687	2,867	2,903	2,792
Percent of Assessed Valuation (3)	2.36%	2.43%	2.37%	2.27%	2.13%
Percent of Equalized Valuation (4)	1.99%	2.04%	2.01%	2.04%	2.09%
Per Capita as a percent of					
Personal Income (2) per capita	7.29%	7.46%	8.05%	8.09%	7.78%

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - Latest applicable actuals or estimates.

(3) Source: Board of Assessors - Assessed valuation as of the prior January 1.

(4) Source: Massachusetts Department of Revenue - Equalized valuation in effect for that fiscal year (equalized valuations are established for January 1 of each even-numbered year).

Annual Debt Service (1)

<u>Fiscal Year</u>	<u>Outstanding as of 3/15/13</u>		<u>Total Debt Service</u>	<u>Cumulative % Principal Retired</u>
2013	\$ 1,239,846	\$ 365,639	\$ 1,605,485	4.9%
2014	2,158,435	969,202	3,127,637	13.3
2015	2,189,027	893,530	3,082,557	21.9
2016	2,220,711	802,636	3,023,347	30.6
2017	2,167,274	710,566	2,877,840	39.1
2018	2,002,655	,619,116	2,621,771	46.9
2019	2,039,070	530,973	2,570,043	54.9
2020	2,069,408	446,904	2,516,313	63.0
2021	2,071,213	365,186	2,436,399	71.1
2022	1,973,891	283,028	2,256,919	78.8
2023	1,954,529	201,401	2,155,930	86.5
2024	846,636	120,309	966,945	89.8
2025	310,875	106,231	417,106	91.0
2026	93,798	96,513	190,311	91.4
2027	96,839	93,472	190,311	91.8
2028	100,004	90,306	190,311	92.2
2029	89,185	87,011	176,197	92.5
2030	72,159	83,786	155,945	92.8
2031	75,316	80,629	155,945	93.1
2032	78,611	77,334	155,945	93.4
2033	82,050	73,895	155,945	93.7
2034	85,640	70,305	155,945	94.0
2035	89,386	66,559	155,945	94.4
2036	93,297	62,648	155,945	94.8
2037	97,379	58,566	155,945	95.1
2038	101,639	54,306	155,945	95.5
2039	106,086	49,859	155,945	96.0
2040	110,727	45,218	155,945	96.4
2041	115,571	40,374	155,945	96.8
2042	120,628	35,317	155,945	97.3
2043	125,905	30,040	155,945	97.8
2044	131,414	24,531	155,945	98.3
2045	137,163	18,782	155,945	98.9
2046	143,164	12,781	155,945	99.4
2047	<u>148,978</u>	<u>6,518</u>	<u>155,496</u>	<u>100.0%</u>
Total	<u>\$25,538,511</u>	<u>\$7,673,472</u>	<u>\$33,211,983</u>	

(1) Excludes revenue anticipation notes, grant anticipation notes, bond anticipation notes, lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) **Principal totaling \$11,727,644 and interest totaling \$2,658,291 has been exempted from the provisions of Proposition 2 1/2.**

Revenue Anticipation Borrowing

The Town has not borrowed in anticipation of revenue in the last five fiscal years.

CONTRACTS

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter into long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There is implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities. The Town does not have an electric department.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town has a limited number of such contracts; one being for school bus transportation, extending through June 30, 2015 with an annual cost of \$561,000.

OVERLAPPING DEBT

The following table sets forth the portion of overlapping debt relating to the Town (1):

	Outstanding <u>03/15/13</u>	Assessment for Operations & Debt Service <u>FY 2013</u>
Montachusett Regional Vocational Technical School District (2)	\$6,970,000	\$681,078

(1) Principal amount only. Excludes temporary loans in anticipation of revenue. Omits debt of the Commonwealth.

(2) Source: Montachusett Regional Vocational Technical School District. Debt is as of March 15, 2013. Towns may organize regional school districts to carry out general or specialized educational functions. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the districts. The other members of the District are the Towns of Ashby, Barre, Harvard, Hubbardston, Royalston, Sterling and the Cities of Fitchburg and Gardner.

The Lunenburg Water District of Lunenburg, which is entirely separate from the Town, provides water services to the territory located within the Town. The District has the power to levy unlimited ad valorem taxes upon all taxable property within its boundaries to pay debt service and operating expenses, except to the extent such expenses are paid from betterment assessments and user charges. The District has never exercised this taxing power. The District is self-supporting and water rates have been sufficient, along with other operating revenues of the District, to pay current expenses including debt service. As of March 15, 2013, the District had \$4,031,867 outstanding bonds.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

The Town participates in the Worcester Regional Retirement System. The annual contributions to the retirement system for the most recent years are set forth below:

<u>Fiscal Year</u>	<u>Total</u>
2013 (budgeted)	\$684,989
2012	597,771
2011	583,808
2010	528,137
2009	493,121

The foregoing data do not include the retirement system costs or liabilities attributable to employees of the county or the retirement system costs or liabilities of any other entity of which the Town is a constituent part.

As off January 2, 2010, the unfunded actuarial accrued liability of the Worcester Regional Retirement System is calculated at \$863,002,067.

Other Post-Employment Benefits. In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis.

The pay-as-you-go cost to the Town for such benefits in recent years are as follows:

<u>Fiscal Year</u>	<u>Total</u>
2013 (budgeted)	\$1,060,963
2012	1,048,139
2011	1,058,869
2010	1,263,000
2009	1,146,000

The Governmental Accounting Standards Board (“GASB”) recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

The Town was required to implement the new GASB reporting requirements for other post-employment benefits beginning in fiscal year 2009. Aon Consulting performed an actuarial valuation of its non-pension, post-employment benefit liability. As of July 1, 2008, the most recent valuation available, the accrued liability for such post-employment benefits is \$40,584,000. Based on July 1, 2008 enrollment and cost information, the cost of amortizing the unfunded accrued liability over 30 years at a fixed rate is \$4,182,000.

PROPERTY TAXATION

Tax Rate and Valuation-General. Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 per cent of their share of the total valuation. A city or town may also exempt up to 20 per cent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value". (See Debt Limits above.)

VALUATIONS

The following shows the assessed and equalized valuations for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Real Property(1)	\$1,101,654,500	\$1,092,532,700	\$1,086,134,100	\$1,204,288,900	\$1,274,506,600
Personal Property(1)	<u>29,375,244</u>	<u>28,433,861</u>	<u>28,148,789</u>	<u>22,985,504</u>	<u>22,670,064</u>
Total	<u>\$1,131,029,744</u>	<u>\$1,120,966,561</u>	<u>\$1,114,282,889</u>	<u>\$1,227,274,404</u>	<u>\$1,297,176,664</u>
Equalized Value(2)	\$1,330,888,500	\$1,330,888,500	\$1,330,888,500	\$1,446,399,700	\$1,446,399,700
Percent of Total Assessed to Equalized Valuation	85.0%	84.2%	83.7%	84.9%	89.7%

(1) Source: Massachusetts Department of Revenue.

(2) Based on the equalized valuation in effect for each year.

Classification of Property

The following table shows the breakdown of the total assessed valuation for fiscal years 2013 through 2011 by classification:

<u>Type of Property</u>	<u>Fiscal 2013 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>	<u>Fiscal 2012 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>	<u>Fiscal 2011 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Residential	\$1,016,139,357	89.8%	\$1,008,566,509	90.0%	\$1,000,004,500	89.7%
Commercial	65,224,243	5.8	63,563,291	5.7	64,514,700	5.8
Industrial	20,290,900	1.8	20,402,900	1.8	21,614,900	1.9
Personal	<u>29,375,244</u>	<u>2.6</u>	<u>28,433,861</u>	<u>2.5</u>	<u>28,148,789</u>	<u>2.5</u>
Total	<u>\$1,131,029,744</u>	<u>100.0%</u>	<u>\$1,120,966,561</u>	<u>100.0%</u>	<u>\$1,114,282,889</u>	<u>100.0%</u>

Tax Rates

The following shows the actual tax rates per \$1,000 of assessed valuation, the average tax rate and the estimated full value rate based on the equalized valuations for the current and most recent fiscal years:

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Estimated Full Value Tax Rate</u>
2013	\$17.30	\$14.70
2012	16.83	14.18
2011	16.16	12.45
2010	14.20	12.05
2009	13.04	11.69

Largest Taxpayers (1)

The following is a list of the ten largest taxpayers for fiscal 2013 (1):

<u>Name</u>	<u>Nature of Business</u>	<u>FY 2013 Assessed Valuation</u>	<u>Amount of Tax</u>	<u>% of Total Levy</u>
Emerald Place Development Corp	Condo Project	\$32,378,900	\$560,155	2.86%
Keating Trust	Sand/Gravel Quarry	11,615,300	200,945	1.03%
UNITIL	Utility Company	10,362,376	179,269	0.92%
Centro GA Lunenburg Crossing	Shopping Center	9,264,700	160,279	0.82%
Verizon New England	Utility Company	6,468,000	111,896	0.57%
Great Bridge Lunenburg Inc	Apartment Complex	5,252,700	90,872	0.46%
Tennessee Gas Pipeline	Utility Company	3,494,100	60,448	0.31%
A&D Crossroads Inc	Shopping Center	2,924,300	50,590	0.26%
Comcast of Massachusetts III, Inc.	Utility Company	2,262,044	39,133	0.20%
Hall, Howard J & Harvey, Richard	Industrial	2,256,700	39,041	0.20%
Boston Gas Company	Utility Company	1,980,545	24,263	0.18%
140 LBURG, LLC	Industrial	1,902,900	32,920	0.17%
CVS 1884-02 MA, LLC Delaware LLC	Retail	1,776,900	30,740	0.16%
Lunenburg Village Realty	Retail/Office	1,572,200	27,199	0.14%
Leverone, Robert A Trustee	Commercial	<u>1,533,100</u>	<u>26,523</u>	<u>0.14%</u>
Total		<u>\$95,044,765</u>	<u>\$1,644,274</u>	<u>8.40%</u>

(1) All of the largest taxpayers are current in their real estate and personal property tax payments.

TAX LEVIES

Levy - General. The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "Tax Limitations" herein. As to the inclusion of debt service and final judgments, see "Security and Remedies" above.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see Abatements and Overlay herein) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see Taxation to Meet Deficits herein).

Taxation to Meet Deficits. As noted elsewhere (see Abatements and Overlay herein) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax

revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations. Chapter 59, Section 21C of the General Laws, known as "Proposition 2 1/2", imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7 1/2 percent by majority vote of the voters, or to less than 7 1/2 percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such

bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2 1/2 limits the amount required to pay specified capital outlay expenditures or for the city or town's apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2 1/2 limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2 1/2 limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2 1/2 percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2 1/2 any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Initiative Petitions. Various other proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

Pledged Taxes. Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. (See "Tax Increment Financing for Development Districts" herein.)

CALCULATION OF TAX LEVIES AND LEVY LIMITS

The following table shows the details of the calculation of the tax levies for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Gross Amount to be Raised:					
Appropriations	\$29,091,713	\$27,601,122	\$27,741,391	\$26,273,999	\$26,988,781
Other Local Expenditures	1,031,511	1,086,279	1,021,358	958,995	1,020,239
State & County Charges	1,061,596	801,940	739,328	703,409	800,796
Overlay Reserve	<u>156,741</u>	<u>141,918</u>	<u>124,378</u>	<u>141,583</u>	<u>97,988</u>
Total Gross Amount to be Raised	<u>\$31,341,561</u>	<u>\$29,631,260</u>	<u>\$29,626,455</u>	<u>\$28,077,986</u>	<u>\$28,907,804</u>
Less Estimated Receipts & Other Revenue:					
Estimated Receipts from State	\$ 7,277,816	\$ 6,495,447	\$ 6,541,376	\$ 6,514,607	\$ 7,224,947
Estimated Receipts - Local	4,258,205	4,235,195	4,279,017	3,798,251	4,133,741
Available Funds Appropriated:					
Free Cash	39,124	0	239,841	0	406,074
Other Available Funds	199,601	34,750	559,410	259,766	191,644
Free Cash & Other Revenue Used to Reduce the Tax Rate	<u>0</u>	<u>0</u>	<u>0</u>	<u>78,066</u>	<u>36,215</u>
Total Estimated Receipts & Revenue	<u>\$11,774,746</u>	<u>\$10,765,392</u>	<u>\$11,619,644</u>	<u>\$10,650,690</u>	<u>\$11,992,621</u>
Net Amount to be Raised (Tax Levy)	<u>\$19,566,815</u>	<u>\$18,865,867</u>	<u>\$18,006,811</u>	<u>\$17,427,297</u>	<u>\$16,915,183</u>

The following shows the calculation of levy limits for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Primary Levy Limit (2)	\$28,275,744	\$28,024,164	\$27,857,072	\$30,681,860	\$32,429,417
Prior Fiscal Year Levy Limit	17,892,554*	17,017,602	16,418,410	15,890,966	15,368,583
2.5% Levy Growth	447,314	425,440	410,460	397,274	384,215
New Growth (3)	321,862	448,111	188,732	130,170	138,168
Overrides	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Growth Levy Limit	18,661,730	17,891,153	17,017,602	16,418,410	15,890,966
Debt Exclusions	<u>907,337</u>	<u>977,796</u>	<u>991,724</u>	<u>1,015,287</u>	<u>1,036,977</u>
Tax Levy Limit	19,569,067	18,868,949	18,009,326	17,433,697	16,927,943
Tax Levy	<u>19,566,815</u>	<u>18,865,867</u>	<u>18,006,811</u>	<u>17,427,297</u>	<u>16,915,184</u>
Unused Levy Capacity (4)	<u>2,252</u>	<u>3,082</u>	<u>2,515</u>	<u>6,400</u>	<u>12,759</u>
Unused Primary Levy Capacity (5)	<u>\$ 9,614,014</u>	<u>\$10,133,011</u>	<u>\$10,839,470</u>	<u>\$14,263,450</u>	<u>\$16,538,451</u>

(1) 2.5% of assessed valuation

(2) Allowed increase for new valuations - certified by the Department of Revenue

(3) Tax Levy Limit less Tax Levy.

(4) Primary Levy limit less Growth Levy Limit.

* Recalculated due to certification of retroactive growth.

TAX COLLECTIONS & ABATEMENTS

Payment Dates. The taxes for each fiscal year are due in two installments on November 1 (subject to deferral if tax bills are sent out late) and May 1, unless the city or town accepts a statute providing for quarterly tax payments. Under that statute, preliminary tax payments are due on August 1 and November 1 with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1 and May 1 if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes at the rate of 14 per cent per annum. The Town has voted to implement quarterly tax billing.

Lien. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

Personal Liability. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws.) In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The following shows the total tax levy, the reserve for abatements, the net levy and the amounts collected during the current and each of the most recent fiscal years:

	<u>For Fiscal Year</u>				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Tax Levy	\$19,566,815	\$18,865,867	\$18,006,811	\$17,427,297	\$16,915,184
Overlay Reserve for Abatements	<u>156,741</u>	<u>141,918</u>	<u>124,378</u>	<u>141,583</u>	<u>97,988</u>
Net Tax Levy(1)	<u>\$19,410,074</u>	<u>\$18,723,949</u>	<u>\$17,882,433</u>	<u>\$17,285,714</u>	<u>\$16,817,196</u>
Amount Collected					
During Fiscal Year Payable(2)	\$9,129,579	\$18,400,293	\$17,488,245	\$16,831,867	\$16,082,796
Percent of Net Tax Levy	47.0%	98.2%	97.8%	97.4%	95.6%

(1) Net after deduction of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable but including proceeds of tax titles and tax possessions attributed to such levy but not including abatements or other credits.

Abatements and Overlay. A city or town is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following shows the abatements granted during the fiscal year for the current and most recent fiscal years:

	For Fiscal Year				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tax Levy	\$19,566,815	\$18,865,867	\$18,006,811	\$17,427,297	\$16,915,184
Overlay Reserve for Abatements	156,741	141,918	124,378	141,583	97,988
Percent of Tax Levy	0.8%	0.8%	0.7%	0.8%	0.6%
Abatements Granted:					
During Fiscal Year of Levy	\$101,473	\$112,692	\$119,992	\$112,379	\$128,197

Taking and Sale. Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for nonpayment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes.

Sale of Tax Receivables. Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Taxes Outstanding

The following shows the tax titles and possessions at the end of each of the last five fiscal years:

	For Fiscal Year				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax Titles and Possessions	\$887,181	\$739,842	\$676,745	\$551,873	\$457,568

TOWN FINANCES

Budget and Appropriation Process

The annual appropriations of a town are ordinarily made at the annual meeting which takes place in February, March, April, May or June. Appropriations may also be voted at special meetings. Every town must have an appropriation, advisory or finance committee. The committee (or the board of selectmen if authorized by by-laws) is required to submit a budget of proposed expenditures at the annual town meeting.

Town meeting may at any time vote to transfer any amount previously appropriated to any other authorized use by law, and, under certain circumstances and subject to certain limits and requirements, the selectmen of a town, with the concurrence of the finance committee, may transfer amounts appropriated for the use of any department to any other appropriation for the same department or to any other department.

Water and sewer department expenditures are generally included in the budgets adopted by town meetings but electric and gas department funds may be appropriated by the municipal light boards. Under certain legislation any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the town meeting, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. From fiscal 1994 to the present, the Town's net school spending has exceeded the minimum required local contribution.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See Property Taxation and Valuation above.)

Budget Comparison

The following table sets forth the budgets for fiscal years 2009-2013:

<u>Department</u>	For Fiscal Year				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Government	\$ 3,948,638	\$ 3,879,061	\$ 3,691,668	\$ 3,417,384	\$ 3,493,101
Public Safety	2,504,932	2,473,394	2,322,821	2,300,487	2,293,638
Human Services	175,264	198,000	181,347	168,321	194,751
Education	16,176,612	15,537,393	15,224,200	15,222,347	15,318,628
Public Works	1,401,673	1,389,700	1,304,418	1,194,867	1,203,937
Debt Service	2,934,410	2,775,868	2,897,801	2,664,148	2,673,404
Library	<u>338,540</u>	<u>346,956</u>	<u>329,791</u>	<u>330,201</u>	<u>329,867</u>
Total	<u>\$27,480,069</u>	<u>\$26,600,372</u>	<u>\$25,952,046</u>	<u>\$25,297,755</u>	<u>\$25,507,326</u>

STATE AID

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer

such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. **The Town did adopt this legislation.**

The following table sets forth the amount of State aid to the Town in recent years:

<u>Fiscal Year</u>	Total From State Government
2013 (budgeted)	\$6,718,759
2012	6,082,327
2011	5,982,319
2010	6,015,508
2009	6,638,386

In Fiscal 2009, the Town's initial state aid estimate, upon which it based its operating budget, was \$6,638,386. On January 28, 2009, Massachusetts Governor Deval Patrick announced mid-year reductions in state aid for most communities, including Lunenburg, in response to growing fiscal pressures on the Commonwealth of Massachusetts. The Town's reduction, which was in its Lottery aid, will total \$128,253. The Town made the necessary budgetary reductions and reserve allocations to respond to this revenue reduction.

State School Building Assistance Program

Under its school building assistance program, The Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of

the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality, eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs, in most cases.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

MOTOR VEHICLE EXCISE

An excise is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. The excise is collected by and for the benefit of the municipality in which the motor vehicle is customarily kept. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the registrar of motor vehicles.

The following table shows the actual motor vehicle receipts in each of the most recent fiscal years:

<u>Fiscal Year</u>	<u>Receipts (1)</u>
2013 (budgeted)	\$1,305,744
2012	1,286,625
2011	1,179,520
2010	1,171,300
2009	1,240,493

(1) Net after refunds. Includes receipts for prior years.

UNDESIGNATED GENERAL FUND BALANCE AND FREE CASH

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. The Town Accountant may certify as available for appropriation an adjusted free cash figure by adding back those uncollected and overdue property taxes which are subsequently collected between July 1 and the following March 31 of any year.

The following table sets forth the undesignated fund balance and certified free cash for the most recent fiscal years:

<u>July 1,</u>	<u>Undesignated Fund Balance (1)</u>	<u>Free Cash</u>
2012	\$647,065	\$572,129
2011	257,616	104,113
2010	263,173	239,841
2009	(45,095)	0
2008	1,184,487	0

(1) Beginning in fiscal 2009, the Town is presenting reimbursements from the Massachusetts School Building Authority and premiums on bonds and notes financing school projects as reservations against fund balance. This has the effect in fiscal 2009 of lowering undesignated fund balance by \$908,855. Undesignated fund balance in prior fiscal years, where the Town did not present such reimbursements and premiums as reservations against such fund balances are, as a result much higher.

STABILIZATION FUND

The Town has maintained a Stabilization Fund for several years. Under Massachusetts statutes funds may be appropriated from the Fund for any municipal purpose by a two thirds vote of the town meeting.

<u>Fiscal Year</u>	<u>Total</u>
2012	\$1,354,492
2011 (2)	1,337,637
2010 (1)	1,527,741
2009	1,620,315
2008	1,584,505

(1) Includes \$361,000 zoning incentive stabilization fund.

(2) Includes \$364,520 zoning incentive stabilization fund.

COMMUNITY PRESERVATION ACT

The Massachusetts Community Preservation Act (the “CPA”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “Property Tax” above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The Town has not accepted the provisions of the CPA.

INVESTMENTS

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

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

Trust funds, unless otherwise provided by the donor, may be invested in accordance with section 54 of Chapter 44, which permits a broader range of investments than section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by sections 54 and 55 do not apply to city and town retirement systems.

COLLECTIVE BARGAINING

City and Town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment.

The Town has approximately 541 full and part-time permanent employees of whom approximately 47 percent belong to unions or other collective bargaining groups as follows:

<u>Department</u>	<u>Union</u>	<u>Number of People</u>	<u>Contract Expires (1)</u>
School	Teachers	124	06/30/14
School Secretaries	Secretaries	6	06/30/13
School	Tutors & Aides	51	06/30/14
School	Custodians	12	06/30/14
School	Nurse	3	06/30/14
Café School	Cafeteria Workers	15	06/30/13
Police Officers	IBPO	13	06/30/13
Fire	Dispatchers	4	06/30/13
DPW	DPW Workers	6	06/30/12
DPW	Middle Managers	3	06/30/13
Town	Clerical	16	06/30/14
Fire	Firefighters	<u>3</u>	06/30/14
		<u>256</u>	

(1) Expired contracts under negotiation.

PHYSICAL AND ECONOMIC CHARACTERISTICS

Principal Employers (1)

The following are the principal employers, other than the Town itself, located in the Town:

<u>Company</u>	<u>Nature of Business</u>	<u>Approximate Current Employees</u>
PJ Keating	Industrial	225
Walmart	Retail Store	202
Tradex Corporation	Manufacturing	95
Ecological Fibers	Manufacturing	80
Maki Home Center	Building Supplies	65
Hannaford	Grocery Store	45

(1) Source: The Town as of March, 2013.

Employment by Industry**Calendar Year Average**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Construction & Natural Resources	266	267	342	313	347
Manufacturing	70	66	79	104	110
Trade, Transportation & Utilities	746	756	827	897	937
Financial Activities	45	35	39	43	45
Professional & Business Services	129	120	114	124	134
Education & Health Services	86	79	71	66	66
Leisure & Hospitality	216	223	223	238	273
Information & Other Services	<u>70</u>	<u>67</u>	<u>56</u>	<u>49</u>	<u>48</u>
Total Employment	2,164	2,211	1,751	1,834	1,960
Number of Establishments	230	225	220	233	235
Total Annual Wage (000)	\$86,057	\$86,748	\$87,481	\$90,867	\$92,215
Average Weekly Wage	\$765	\$755	\$741	\$737	\$724

Building Permits**Calendar**

<u>Year</u>	<u>Number</u>	<u>Estimated Value</u>
2012	355	\$8,626,192
2011	290	11,055,222
2010	583	14,219,089
2009	267	12,070,816
2008	309	7,147,428

OTHER DATA

Unemployment (1)

	<u>Lunenburg</u>	<u>Massachusetts</u>	<u>United States</u>
2012 (December)	7.9%	6.6%	7.6%
2011	8.3	6.8	8.9
2010	9.2	8.5	9.6
2009	9.1	8.2	9.3
2008	5.7	5.3	5.8

(1) Massachusetts Department of Employment and Training. Full year annual averages except for 2012 which is for the month indicated.

Population (1)

<u>Year</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>
2011 (Estimate)	10,122	0.4%	801,227	0.3%	6,587,536	0.6%
2010	10,086	7.3	798,552	6.3	6,547,629	3.1
2000	9,401	3.1	750,963	5.8	6,349,097	5.5
1990	9,917	8.5	709,705	9.8	6,016,425	4.9
1980	8,405		646,352		5,737,037	

(1) Source: U.S. Department of Commerce for actuals, Massachusetts Institute for Social & Economic Research for projections.

Population Density (1)

<u>Year</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Density (2)</u>	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>
2011 (Estimate)	10,122	383.1	801,227	529.5	6,587,536	840.5
2010	10,086	381.7	798,552	527.7	6,547,629	835.4
2000	9,401	355.8	750,963	496.3	6,349,097	810.0
1990	9,917	345.0	709,705	469.0	6,016,425	767.6
1980	8,405	318.1	646,352	427.2	5,737,037	732.0

(1) Source: U.S. Department of Commerce.

(2) Based on 26.4 square miles.

Population Composition by Age 2011 (1)

<u>Age</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 Years	590	5.9%	47,230	5.9%	367,252	5.6%
5 Years to 17 Years	1,822	18.2	164,998	20.8	1,262,333	19.4
18 Years to 64 Years	6,377	63.6	481,852	60.6	3,991,339	61.3
65 Years & Over	1,245	12.4	100,901	12.7	891,303	13.7
Total	<u>10,034</u>	<u>100.0%</u>	<u>794,981</u>	<u>100.0%</u>	<u>6,512,227</u>	<u>100.0%</u>
Median Age		42.0		38.8		38.9
Median Age (2000)		39.4		36.3		36.5

(1) Source: U.S. Department of Commerce.

Income Levels (1)

<u>Year</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>	<u>Amount</u>	<u>% Change from Previous Census</u>
2011 5-yr estimates	\$35,868	32.9%	\$31,470	36.9%	\$35,051	35.1%
1999	26,986	40.8	22,983	48.3	25,952	50.7
1989	19,166		15,500		17,224	

% Below Poverty Level (2011) 5.2% 9.9% 10.7%

(1) Source: U.S. Department of Commerce.

Family Income Distribution 2011 (1)

<u>Income for Families</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
Less than \$10,000	27	1.0%	6,831	3.4%	57,867	3.6%
10,000 - 24,999	137	4.9	16,019	7.9	133,136	8.3
25,000 - 49,999	389	13.9	34,012	16.8	264,129	16.5
50,000 - 74,999	444	15.9	35,670	17.6	261,052	16.3
75,000 - 99,999	543	19.4	33,139	16.4	242,747	15.1
100,000 - 149,999	741	26.5	43,206	21.4	330,690	20.6
150,000 or more	517	18.5	33,302	16.5	314,319	19.6
Total	<u>2,798</u>	<u>100.0%</u>	<u>202,179</u>	<u>100.0%</u>	<u>1,603,940</u>	<u>100.0%</u>
Median Income	\$95,000		\$81,342		\$83,371	

Household Income Distribution 2011 (1)

<u>Income for Households</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>
Less than \$10,000	92	2.5%	17,121	5.7%	164,071	6.5%
10,000 - 24,999	294	7.9	40,585	13.6	341,431	13.5
25,000 - 49,999	661	17.7	58,662	19.6	477,788	18.9
50,000 - 74,999	532	14.3	51,657	17.3	416,286	16.5
75,000 - 99,999	654	17.5	42,563	14.2	337,712	13.4
100,000 - 149,999	912	24.5	51,686	17.3	418,394	16.6
150,000 or more	<u>583</u>	<u>15.6</u>	<u>36,815</u>	<u>12.3</u>	<u>366,727</u>	<u>14.5</u>
Total	<u>3,728</u>	<u>100.0%</u>	<u>299,089</u>	<u>100.0%</u>	<u>2,522,409</u>	<u>100.0%</u>

Median Income \$83,265 \$65,772 \$65,981

(1) Source: U.S. Department of Commerce.

Value Distribution of Specified Owner-Occupied Housing Units 2011 (1)

<u>Units</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$100,000	112	3.4%	6,791	3.4%	49,369	3.1%
100,000 - 199,999	371	11.3	36,122	18.0	189,878	11.8
200,000 - 299,999	1,109	33.8	74,858	37.3	389,385	24.3
300,000 - 499,999	1,420	43.3	64,553	32.1	627,185	39.1
500,000 - 999,999	225	6.9	17,009	8.5	291,521	18.2
1,000,000 or more	<u>41</u>	<u>1.3</u>	<u>1,537</u>	<u>0.8</u>	<u>57,135</u>	<u>3.6</u>
Total	<u>3,278</u>	<u>100.0%</u>	<u>200,870</u>	<u>100.0%</u>	<u>1,604,473</u>	<u>100.0%</u>

Median Value \$305,000 \$274,900 \$343,500

(1) Source: U.S. Department of Commerce.

Age Distribution of Housing Units 2011 (1)

<u>Year Built</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
2000 or later	459	11.3%	26,644	8.2%	187,003	6.7%
1980 to 1999	699	17.2	70,605	21.7	508,434	18.2
1940 to 1979	2,192	54.0	118,415	36.4	1,111,838	39.7
1939 or Earlier	<u>708</u>	<u>17.4</u>	<u>110,007</u>	<u>33.8</u>	<u>992,082</u>	<u>35.4</u>
Total	<u>7,058</u>	<u>100.0%</u>	<u>325,671</u>	<u>100.0%</u>	<u>2,799,357</u>	<u>100.0%</u>

(1) Source: U.S. Department of Commerce.

Housing Unit Inventory 2011 (1)

<u>Units in Structure</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1, Detached	3,491	86.0%	185,588	57.0 %	1,467,290	52.4%
1, Attached	118	2.9	17,700	5.4	137,591	4.9
2 to 4	282	6.9	67,102	20.6	600,848	21.5
5 to 9	66	1.6	18,223	5.6	169,877	6.1
10 to 19	8	0.2	13,624	4.2	120,421	4.3
20 or More	22	0.5	20,884	6.4	278,777	10.0
Mobile Home, Trailer, or Other	<u>71</u>	<u>1.7</u>	<u>2,550</u>	<u>0.8</u>	<u>24,553</u>	<u>0.9</u>
Total	<u>4,058</u>	<u>100.0%</u>	<u>325,671</u>	<u>100.0%</u>	<u>2,799,357</u>	<u>100.0%</u>

(1) Source: U.S. Department of Commerce.

Educational Attainment 2011 (1)

<u>Years of School Completed</u>	<u>Lunenburg</u>		<u>Worcester County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th Grade	209	3.0%	22,881	4.3%	215,977	4.9%
9th to 12th Grade, No Diploma	322	4.6	37,098	7.0	274,938	6.2
High School Graduate	2,056	29.2	153,348	28.9	1,161,382	26.3
Some College, No Degree	1,407	20.0	93,828	17.7	718,047	16.2
Associate's Degree	822	11.7	47,236	8.9	337,921	7.6
Bachelor's Degree	1,419	20.1	108,910	20.5	977,354	22.1
Graduate or Professional Degree	<u>813</u>	<u>11.5</u>	<u>68,159</u>	<u>12.8</u>	<u>733,672</u>	<u>16.6</u>
Total	<u>7,048</u>	<u>100.0%</u>	<u>531,460</u>	<u>100.0%</u>	<u>4,419,291</u>	<u>100.0%</u>
High School Graduate or Higher	6,517	92.5%	471,481	88.7%	3,928,376	88.9%
Bachelor's Degree or Higher	2,232	31.7%	177,069	33.3%	1,711,026	38.7%

(1) Source: U.S. Department of Commerce.

Public School Enrollments (1)

	<u>Actual</u>				
	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Elementary (K-5)	694	766	733	701	748
Middle School (6-8)	415	403	381	386	395
Senior High School (9-12)	<u>588</u>	<u>559</u>	<u>536</u>	<u>510</u>	<u>471</u>
Total	<u>1,697</u>	<u>1,728</u>	<u>1,650</u>	<u>1,597</u>	<u>1,614</u>

(1) Source: Massachusetts Dept. of Education - As of October 1, each school year.

LITIGATION

In the opinion of the Town, there is no litigation, pending which, either individually or in the aggregate, is likely to result in final judgments against the Town, which would materially affect the Town's financial position or its ability to pay its obligations.

**TOWN OF LUNENBURG
Massachusetts**

By: /s/ Shelley A. McCaie
Town Treasurer

Dated: March 15, 2013

APPENDIX A

The Balance Sheet and Combined Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year ending June 30, 2012 is extracted from the draft audited financial statements of the Town. The Balance Sheets for the fiscal year ending June 30, 2008 through 2011 and the combined Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal years 2008 through 2011 have been extracted from the audits of Powers and Sullivan, Certified Public Accountants.

A copy of the 2011 audited financial statement is reproduced in Appendix B.

**TOWN OF LUNENBURG
MASSACHUSETTS
BALANCE SHEET
GENERAL FUND (1)
June 30,**

<u>Assets</u>	<u>2012</u>
Cash and cash equivalents	\$ 3,059,542
Investments	
Receivables:	
Real estate & personal property	389,636
Tax liens and foreclosures	887,181
Motor vehicle & other excise taxes	173,445
Departmental & Other	519,807
Special Assessments	1,132,506
Intergovernmental	0
Due From Other Funds	<u>23,366</u>
Total Assets	<u>\$6,185,492</u>

Liabilities and Fund Balances

Liabilities	
Warrants payable	\$ 268,803
Accrued payroll	921,315
Liabilities due depositors	
Payroll withholdings	246,581
Abandoned property	
Other liabilities	37,268
Due to other funds	50,352
Deferred Revenues	<u>3,103,906</u>
Total Liabilities	<u>4,635,924</u>

Fund Balances	
Reserved for encumbrances	160,873
Reserved for future debt-premium	23,129
Reserved for MSBA debt/DE-1	719,501
Undesignated	<u>647,065</u>
Total Fund Equity	<u>1,550,567</u>

Total Liabilities and Fund Balances \$6,185,492

(1) Excerpts from the **DRAFT** audited financial statements of the Town prepared by Powers and Sullivan, Certified Public Accountants.

**TOWN OF LUNENBURG
MASSACHUSETTS
BALANCE SHEET
GENERAL FUND (1)
June 30,**

<u>Assets</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents	\$ 4,414,034	\$ 3,934,261	\$2,600,032	\$1,178,047	\$2,176,850
Receivables:					
Property Taxes	399,112	471,871	465,374	726,071	402,610
Excises	104,455	99,748	85,883	74,420	105,637
Tax Liens and Foreclosures	887,180	739,841	676,744	583,139	457,568
Departmental & Other	318,153	310,665	271,410	216,535	214,223
Special Assessments	1,140,158	1,189,893	1,150,641	110,106	131,508
Intergovernmental	4,631,435	4,970,585	5,439,739	5,833,997	6,137,269
Due From Other Funds	<u>0</u>	<u>108,710</u>	<u>18,412</u>	<u>1,153,899</u>	<u>1,193,773</u>
Total Assets	<u>\$11,894,527</u>	<u>\$11,825,574</u>	<u>\$10,708,235</u>	<u>\$9,876,214</u>	<u>\$10,819,438</u>

Liabilities and Fund Equity

Liabilities

Warrants Payable	268,802	203,919	331,295	573,651	841,748
Accrued Payroll	921,315	879,012	789,527	721,719	630,371
Liabilities due Depositors	8,095	8,079	8,034	7,971	7,848
Payroll Withholdings	246,581	193,550	165,131	153,032	15,665
Abandoned Property	28,923	28,923	5,845	5,845	2,396
Other Liabilities	13,334	14,685	19,525	28,470	44,976
Due to Other funds	20,602	213,252	0	0	0
Deferred Revenues	<u>7,481,814</u>	<u>7,782,603</u>	<u>8,052,499</u>	<u>7,283,357</u>	<u>7,353,911</u>
Total Liabilities	\$ 8,989,466	\$ 9,324,023	\$ 9,371,856	\$ 8,774,045	\$ 8,896,915

Fund Balances

Restricted	719,501	779,460			
Assigned	160,872	207,451			
Unassigned	2,024,688	1,514,640			
Reserve for Encumbrances	0	0	233,787	238,409	408,853
Reserve for Debt Service	0	0	839,419	908,855	0
Unreserved, Designated	0	0	0	0	329,183
Unreserved, Undesignated	<u>0</u>	<u>0</u>	<u>263,173</u>	<u>(45,095)</u>	<u>1,184,487</u>
Total Fund Equity	<u>2,905,061</u>	<u>2,501,551</u>	<u>1,336,379</u>	<u>1,102,169</u>	<u>1,922,523</u>

Total Liabilities and Fund Equity \$11,894,527 \$11,825,574 \$10,708,235 \$9,876,214 \$10,819,438

(1) Excerpts from audited financial statements of the Town prepared by Powers and Sullivan, Certified Public Accountants, except for fiscal 2012, which is from the Town's draft audited financial statements.

TOWN OF LUNENBURG, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND (1)
JUNE 30,

Revenues	2012	2011	2010	2009	2008
Real Estate & Personal Property Taxes	\$18,678,148	\$17,715,006	\$17,090,073	\$16,442,802	\$15,931,194
Tax Liens	175,305	228,736	149,973	99,994	91,397
Motor Vehicle & Other Excise	1,286,626	1,179,520	1,171,217	1,240,518	1,274,996
Penalties, Interest & Other Taxes	135,139	132,513	146,444	94,009	109,731
Fees & Rentals	383,507	434,785	431,698	379,103	418,974
Payments in Lieu of Taxes	1,621	1,607	1,598	3,183	1,651
Licenses and Permits	203,942	309,587	386,577	134,533	161,526
Fines and Forfeits	54,355	35,797	57,818	69,727	79,375
Intergovernmental	9,953,697	9,325,667	9,384,317	9,017,481	9,019,875
Departmental & Other	0	0	0	0	0
Special Assessments	89,882	58,573	81,334	18,164	17,347
Investment Income	29,863	44,502	35,858	154,805	210,819
Total Revenues	<u>\$30,632,085</u>	<u>\$29,466,293</u>	<u>\$28,936,907</u>	<u>\$27,654,319</u>	<u>\$27,316,884</u>
Expenditures					
General Government	\$ 1,981,691	\$ 1,460,660	\$ 1,552,183	\$ 1,636,690	\$ 1,557,165
Public Safety	2,415,681	2,317,267	2,311,020	2,108,957	2,161,390
Education	15,522,385	15,105,931	14,984,694	14,798,468	14,716,124
Public Works	1,246,582	1,130,524	1,120,739	1,113,909	1,058,042
Human Services	199,550	185,745	162,940	173,477	158,547
Culture and Recreation	381,554	384,364	371,191	377,368	351,519
Pension Benefits	3,742,023	3,693,325	3,490,165	3,418,182	3,055,820
Property & Liability Insurance	185,847	136,797	143,696	155,251	142,190
Employee Benefits	2,108,788	2,080,351	1,844,355	1,775,266	1,768,517
State & County Charges	918,299	747,256	700,463	666,430	734,464
Debt Service	1,978,198	2,100,638	1,987,119	1,977,047	1,952,717
Total Expenditures	<u>\$30,680,598</u>	<u>\$29,432,858</u>	<u>\$28,668,565</u>	<u>\$28,201,045</u>	<u>\$27,656,495</u>
Excess (Deficiency) of Revenues Over Expenditures	(48,513)	33,435	268,342	(546,726)	(339,611)
Other Financing Sources (Uses)					
Issuance from refunding bonds	8,959,565	0	0	0	0
Premium from issuance of bonds	157,024	0	0	0	0
Premium from issuance of refunding bonds	1,208,530	0	0	0	0
Payments to refunded bond escrow agent	(9,780,918)	0	0	0	0
Operating Transfers - In	41,587	41,587	80,427	46,088	141,372
Operating Transfers - Out	(133,765)	(437,591)	(114,559)	(319,716)	(538,694)
Total Other Financing Sources (Uses)	<u>452,023</u>	<u>(396,004)</u>	<u>(34,132)</u>	<u>(273,628)</u>	<u>(397,322)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	403,510	(362,569)	234,210	(820,354)	(736,933)
Fund Balance - Beginning	2,501,551	2,864,120	1,102,169	1,922,523	2,659,456
Fund Balance - Ending	<u>\$ 2,905,061</u>	<u>\$ 2,501,551</u>	<u>\$ 1,336,379</u>	<u>\$ 1,102,169</u>	<u>\$ 1,922,523</u>

(1) *Excerpts from audited financial statements of the Town prepared by Powers and Sullivan, Certified Public Accountants, except for fiscal 2012, which is extracted from the Town's **DRAFT** audited financial statements.*

APPENDIX B

There follows in this Appendix a copy of the audit report of Powers and Sullivan, Certified Public Accountants of Wakefield, Massachusetts for fiscal year 2011.

TOWN OF LUNENBURG, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2011

TOWN OF LUNENBURG, MASSACHUSETTS
REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Lunenburg, Massachusetts

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

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

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

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

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

March 3, 2012

Management's Discussion and Analysis

Management's Discussion and Analysis

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

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

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental

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

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

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

Government-wide Financial Analysis

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

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

that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

Governmental Activities

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

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

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

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

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

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

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

Business-type Activities

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

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

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

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

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

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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

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

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

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

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

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

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

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

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

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

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

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

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

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

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

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

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

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

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

See notes to basic financial statements.

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

JUNE 30, 2011

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

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

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

(270,347)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

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

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

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

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

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

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

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

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

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

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

The following fiduciary fund type is reported:

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 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.

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

P. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

Q. Fund Deficits

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

Custodial Credit Risk – Deposits

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

Investments

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

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

Custodial Credit Risk – Investments

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

Interest Rate Risk

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

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

Credit Risk

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

Concentration of Credit Risk

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

NOTE 3 - RECEIVABLES

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

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

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

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

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

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

NOTE 4 - CAPITAL ASSETS

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

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.....	27,074,588	93,928	-	27,168,516
Machinery and equipment.....	4,111,405	576,263	-	4,687,668
Infrastructure.....	<u>24,524,422</u>	<u>222,060</u>	<u>(97,788)</u>	<u>24,648,694</u>
Total capital assets being depreciated.....	<u>55,710,415</u>	<u>892,251</u>	<u>(97,788)</u>	<u>56,504,878</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(6,870,816)	(652,828)	-	(7,523,644)
Machinery and equipment.....	(2,416,556)	(285,487)	-	(2,702,043)
Infrastructure.....	<u>(14,219,405)</u>	<u>(717,124)</u>	<u>97,788</u>	<u>(14,838,741)</u>
Total accumulated depreciation.....	<u>(23,506,777)</u>	<u>(1,655,439)</u>	<u>97,788</u>	<u>(25,064,428)</u>
Total capital assets being depreciated, net.....	<u>32,203,638</u>	<u>(763,188)</u>	<u>-</u>	<u>31,440,450</u>
Total governmental activities capital assets, net....	<u>\$ 36,465,292</u>	<u>\$ (763,188)</u>	<u>\$ -</u>	<u>\$ 35,702,104</u>

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>(1,604,909)</u>	<u>(269,712)</u>	<u>-</u>	<u>(1,874,621)</u>
Total sewer activities capital assets, net.....	<u>\$ 11,880,689</u>	<u>\$ (269,712)</u>	<u>\$ -</u>	<u>\$ 11,610,977</u>

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

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

NOTE 5 - INTERFUND TRANSFERS/BALANCES

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

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

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

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

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

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

NOTE 6 - SHORT-TERM FINANCING

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

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

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

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

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

NOTE 7 - LONG-TERM DEBT

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

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

Bonds and Notes Payable Schedule – Governmental Funds

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

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

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

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

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

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

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

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

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

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

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

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

Changes in Long-term Liabilities

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

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

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

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

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

NOTE 9 - RISK FINANCING

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

NOTE 10 - PENSION PLAN

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

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

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

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

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

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

Annual OPEB Cost and Net OPEB Obligation – The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

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

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

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

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

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

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

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

NOTE 12 - CONTINGENCIES

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

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

NOTE 13 – LANDFILL CLOSURE

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

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

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

Future implementation of GASB pronouncements:

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

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

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to required supplementary information.

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

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Retirement System Schedules of Funding Progress and Employer Contributions

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

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

WORCESTER COUNTY REGIONAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

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

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

See notes to required supplementary information.

WORCESTER COUNTY REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

See notes to required supplementary information.

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Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

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

Schedule of Employer Contributions

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

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

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

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

Actuarial Assumptions:

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

Plan Membership:

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

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

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

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

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

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

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

2. Budgetary - GAAP Reconciliation

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

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

3. Excess of Expenditures over Appropriations

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

NOTE B – PENSION PLAN

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

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

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

Actuarial Methods and Assumptions:

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

Actuarial Assumptions:

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

Plan Membership:

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

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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