

TOWN OF LUNENBURG, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2008

TOWN OF LUNENBURG, MASSACHUSETTS
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JUNE 30, 2008

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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, 2008, 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, 2008, 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.

As described in Note 4, the Town has for the first time reported infrastructure assets of the governmental funds acquired prior to June 30, 2003, as required by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments, as amended and interpreted, as of June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, 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, schedule of funding progress, and schedule of employer contributions 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.

October 24, 2008

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, 2008. 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, 21% or \$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 \$1.9 million, a decrease of approximately \$737,000 in comparison with the prior year. Total fund balance represents 7% of total general fund expenditures.
- The Town's total debt (short-term and long-term combined) increased by \$3.6 million during the current fiscal year. This was due to the net effect of \$6 million from the issuance of new debt and \$2.4 million in principal payments on outstanding debt.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation and interest. The business-type activities include the activities of the sewer and solid waste/recycling operations.

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Lunenburg's assets exceeded liabilities by \$33 million at the close of FY2008.

Net assets of \$24.9 million (76%) 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, \$1.1 million (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$7 million (21%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Lunenburg is able to report positive balances in all three categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type 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 \$29.3 million at the close of Fiscal 2008.

	FY 2008 Governmental Activities	FY 2007 Governmental Activities	Increase (Decrease)
Assets:			
Current assets.....	\$ 9,675,669	\$ 9,610,307	\$ 65,362
Noncurrent assets (excluding capital).....	5,819,649	6,137,269	(317,620)
Capital assets.....	<u>36,324,545</u>	<u>35,690,825</u>	<u>633,720</u>
Total assets.....	<u>51,819,863</u>	<u>51,438,401</u>	<u>381,462</u>
Liabilities:			
Current liabilities (excluding debt).....	2,872,414	1,976,741	895,673
Noncurrent liabilities (excluding debt).....	413,000	432,000	(19,000)
Current debt.....	3,041,832	1,420,872	1,620,960
Noncurrent debt.....	<u>16,222,700</u>	<u>17,399,572</u>	<u>(1,176,872)</u>
Total liabilities.....	<u>22,549,946</u>	<u>21,229,185</u>	<u>1,320,761</u>
Net Assets:			
Capital assets net of related debt.....	23,881,973	23,864,507	17,466
Restricted.....	1,025,527	1,740,944	(715,417)
Unrestricted.....	<u>4,362,417</u>	<u>4,603,765</u>	<u>(241,348)</u>
Total net assets.....	<u>\$ 29,269,917</u>	<u>\$ 30,209,216</u>	<u>\$ (939,299)</u>
Program revenues:			
Charges for services.....	\$ 2,981,168	\$ 2,755,457	\$ 225,711
Operating grants and contributions.....	4,630,625	4,085,457	545,168
Capital grants and contributions.....	167,680	125,475	42,205
General Revenues:			
Real estate and personal property taxes.....	15,961,898	15,107,947	853,951
Motor vehicle and other excise taxes.....	1,272,545	1,332,414	(59,869)
Penalties and interest on taxes.....	110,614	85,663	24,951
Payments in lieu of taxes.....	1,651	1,593	58
Fines and forfeitures.....	79,375	69,922	9,453
Grants and contributions not restricted to specific programs.....	5,893,850	5,799,809	94,041
Unrestricted investment income.....	294,731	409,945	(115,214)
Other revenues.....	<u>94,672</u>	<u>205,795</u>	<u>(111,123)</u>
Total revenues.....	<u>31,488,809</u>	<u>29,979,477</u>	<u>1,509,332</u>
Expenses:			
General government.....	2,952,485	2,932,096	20,389
Public safety.....	3,895,769	3,813,267	82,502
Education.....	21,873,163	20,906,481	966,682
Public works.....	1,944,622	1,624,883	319,739
Human services.....	318,166	304,422	13,744
Culture and recreation.....	714,599	539,259	175,340
Interest.....	<u>717,618</u>	<u>796,974</u>	<u>(79,356)</u>
Total expenses.....	<u>32,416,422</u>	<u>30,917,382</u>	<u>1,499,040</u>
Increase in net assets before transfers.....	(927,613)	(937,905)	10,292
Transfers.....	<u>(11,686)</u>	<u>20,000</u>	<u>(31,686)</u>
Change in net assets.....	<u>\$ (939,299)</u>	<u>\$ (917,905)</u>	<u>\$ (21,394)</u>

The governmental expenses totaled \$32.4 million of which \$7.8 million (24%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$23.7 million, primarily coming from property taxes, motor vehicle excise and non-restricted state aid.

The governmental net assets decreased by approximately \$939,000 during the current fiscal year. This was primarily due to the voted use of \$832,000 of free cash and reserved fund balance to fund the operating budget and depreciation expense in excess of debt principal payments raised on the tax levy.

Business-type Activities

For the Town’s business-type activities, assets exceeded liabilities by \$3.8 million at the close of Fiscal 2008.

	FY 2008 Business-type Activities	FY 2007 Business-type Activities	Increase (Decrease)
Assets:			
Current assets.....	\$ 6,338,053	\$ 2,727,073	\$ 3,610,980
Noncurrent assets (excluding capital).....	2,238,655	2,891,580	(652,925)
Capital assets.....	10,236,701	10,534,921	(298,220)
Total assets.....	18,813,409	16,153,574	2,659,835
Liabilities:			
Current liabilities (excluding debt).....	220,431	187,400	33,031
Current debt.....	4,753,139	915,448	3,837,691
Noncurrent debt.....	10,073,005	10,721,846	(648,841)
Total liabilities.....	15,046,575	11,824,694	3,221,881
Net Assets:			
Capital assets net of related debt.....	1,062,623	726,554	336,069
Unrestricted.....	2,704,211	3,602,326	(898,115)
Total net assets.....	\$ 3,766,834	\$ 4,328,880	\$ (562,046)
Program revenues:			
Charges for services.....	\$ 562,141	\$ 402,828	\$ 159,313
Capital grants and contributions.....	273,881	-	273,881
General Revenues:			
Payments in lieu of taxes.....	45,012	52,354	(7,342)
Unrestricted investment income.....	16,299	27,174	(10,875)
Total revenues.....	897,333	482,356	414,977
Expenses:			
Sewer.....	997,699	1,216,448	(218,749)
Solid waste/recycling.....	473,366	270,211	203,155
Total expenses.....	1,471,065	1,486,659	(15,594)
Increase in net assets before transfers.....	(573,732)	(1,004,303)	430,571
Transfers.....	11,686	(20,000)	31,686
Change in net assets.....	\$ (562,046)	\$ (1,024,303)	\$ 462,257

Business-type net assets of \$1.1 million (28%), represent the investment in capital assets while \$2.7 million (72%) is unrestricted. The Town’s business-type activities net assets decreased by \$562,000 in the current fiscal year. The sewer operations decrease of \$359,000 is primarily due to the voted use of \$56,000 of retained earnings to

balance the operating budget, and the use of betterment fund reserves to pay \$208,000 of scheduled debt interest payments.

The solid waste/recycling operations decrease of \$203,000 is consistent with the voted use of retained earnings to balance the operating budget.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3.4 million, of which \$1.9 million is for the general fund, \$1.2 million is for the stabilization fund and \$238,000 is for non-major governmental funds. Cumulatively there was a decrease of \$2.3 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.2 million, while total fund balance reached \$1.9 million. Reservations of fund balance for encumbrances and continuing appropriations and subsequent years' expenditures totaled \$409,000 and \$329,000, respectively. Unreserved fund balance represents 4% of total general fund expenditures, while total fund balance represents 7% of that same amount.

The Town's general fund decreased by \$737,000 in fiscal 2008, which is primarily due to the voted use of approximately \$832,000 of free cash and reserved fund balance to fund the operating budget.

The stabilization fund decreased by \$197,500 in fiscal 2008, which was due to the net effect of investment income earned during the period and a \$250,000 interfund transfer to fund the capital plan.

General Fund Budgetary Highlights

The \$720,000 increase between the original budget and the final amended budget was primarily due to interfund transfers to the zoning stabilization fund and the capital projects fund. The remainder of the increase was primarily due to increases in general government, public safety and public works appropriations.

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, 2008, amounts to \$46.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, machinery and equipment, and infrastructure. The total increase in the Town's investment in capital assets for the current year was approximately \$334,000.

The major governmental capital asset events during the current fiscal year included athletic field construction, the purchase of a fire truck, the purchase of dump trucks and other machinery and equipment, and the completion of street repaving.

The major business-type capital asset events during the current fiscal year consisted of sewer infrastructure improvements.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2008, totaled \$17.5 million, of which \$10 million is related to school construction projects, \$4.4 million is related to the public safety center construction project, \$1.5 million is related to the library construction project and \$1.6 million is related to other CIP related projects.

The sewer enterprise fund has outstanding long-term debt of \$10.7 million which funded various sewer infrastructure projects.

The Town has \$1.5 million in governmental bond anticipation notes (BAN) outstanding at year-end, that are due on June 25, 2009, with interest rates of 2.75% per annum and \$280,000 of governmental BAN's that are due on December 31, 2008, with an interest rate of .79%. The Town also has \$4.2 million in sewer enterprise fund BAN's outstanding at year-end, that are due on June 25, 2009, with interest rates of 2.75% per annum

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

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STATEMENT OF NET ASSETS

JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 5,280,408	\$ 6,155,369	\$ 11,435,777
Investments.....	1,611,053	-	1,611,053
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	402,610	-	402,610
Tax liens and foreclosures.....	457,568	-	457,568
Motor vehicle and other excise taxes.....	105,637	-	105,637
User fees.....	-	34,216	34,216
Departmental and other.....	214,223	-	214,223
Special assessments.....	131,592	72,510	204,102
Intergovernmental.....	593,672	75,958	669,630
Internal balances.....	878,906	(860,406)	18,500
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special assessments.....	-	1,420,517	1,420,517
Intergovernmental.....	5,819,649	1,678,544	7,498,193
Capital assets, nondepreciable.....	4,290,354	-	4,290,354
Capital assets, net of accumulated depreciation.....	<u>32,034,191</u>	<u>10,236,701</u>	<u>42,270,892</u>
TOTAL ASSETS.....	<u>51,819,863</u>	<u>18,813,409</u>	<u>70,633,272</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	1,803,096	106,221	1,909,317
Accrued payroll.....	786,768	896	787,664
Accrued interest.....	98,665	113,314	211,979
Payroll withholdings.....	15,665	-	15,665
Abandoned property.....	2,396	-	2,396
Other liabilities.....	44,976	-	44,976
Customer deposits payable.....	7,848	-	7,848
Landfill closure.....	17,000	-	17,000
Compensated absences.....	96,000	-	96,000
Bonds and notes payable.....	3,041,832	4,753,139	7,794,971
NONCURRENT:			
Landfill closure.....	289,000	-	289,000
Compensated absences.....	124,000	-	124,000
Bonds and notes payable.....	<u>16,222,700</u>	<u>10,073,005</u>	<u>26,295,705</u>
TOTAL LIABILITIES.....	<u>22,549,946</u>	<u>15,046,575</u>	<u>37,596,521</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	23,881,973	1,062,623	24,944,596
Restricted for:			
Expendable.....	106,591	-	106,591
Nonexpendable.....	222,936	-	222,936
Gifts and grants.....	696,000	-	696,000
Unrestricted.....	<u>4,362,417</u>	<u>2,704,211</u>	<u>7,066,628</u>
TOTAL NET ASSETS.....	<u>\$ 29,269,917</u>	<u>\$ 3,766,834</u>	<u>\$ 33,036,751</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

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.....	\$ 2,952,485	\$ 308,688	\$ 143,213	\$ -	\$ (2,500,584)
Public safety.....	3,895,769	579,830	47,537	-	(3,268,402)
Education.....	21,873,163	1,999,308	4,127,923	-	(15,745,932)
Public works.....	1,944,622	26,324	4,600	162,848	(1,750,850)
Human services.....	318,166	42,222	9,783	1,523	(264,638)
Culture and recreation.....	714,599	24,796	92,843	3,309	(593,651)
Interest.....	717,618	-	204,726	-	(512,892)
Total Governmental Activities...	<u>32,416,422</u>	<u>2,981,168</u>	<u>4,630,625</u>	<u>167,680</u>	<u>(24,636,949)</u>
<i>Business-Type Activities:</i>					
Sewer.....	997,699	308,681	273,881	-	(415,137)
Solid Waste/Recycling.....	473,366	253,460	-	-	(219,906)
Total Business-Type Activities..	<u>1,471,065</u>	<u>562,141</u>	<u>273,881</u>	<u>-</u>	<u>(635,043)</u>
Total Primary Government.....	<u>\$ 33,887,487</u>	<u>\$ 3,543,309</u>	<u>\$ 4,904,506</u>	<u>\$ 167,680</u>	<u>\$ (25,271,992)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page....	\$ (24,636,949)	\$ (635,043)	\$ (25,271,992)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	15,961,898	-	15,961,898
Tax liens.....	131,022	-	131,022
Motor vehicle and other excise taxes.....	1,272,545	-	1,272,545
Penalties and interest.....	110,614	45,012	155,626
Payments in lieu of taxes.....	1,651	-	1,651
Fines and forfeitures.....	79,375	-	79,375
Grants and contributions not restricted to specific programs.....	5,893,850	-	5,893,850
Unrestricted investment income.....	294,731	16,299	311,030
Loss on sale of capital assets.....	(38,276)	-	(38,276)
Miscellaneous.....	1,926	-	1,926
<i>Transfers, net.....</i>	<u>(11,686)</u>	<u>11,686</u>	<u>-</u>
Total general revenues and transfers.....	<u>23,697,650</u>	<u>72,997</u>	<u>23,770,647</u>
Change in net assets.....	(939,299)	(562,046)	(1,501,345)
<i>Net Assets:</i>			
Beginning of year (as restated).....	<u>30,209,216</u>	<u>4,328,880</u>	<u>34,538,096</u>
End of year.....	\$ <u>29,269,917</u>	\$ <u>3,766,834</u>	\$ <u>33,036,751</u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2008

ASSETS	General	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 2,176,850	\$ 1,229	\$ 3,102,329	\$ 5,280,408
Investments.....	-	1,228,250	382,803	1,611,053
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	402,610	-	-	402,610
Tax liens and foreclosures.....	457,568	-	-	457,568
Motor vehicle and other excise taxes.....	105,637	-	-	105,637
Departmental and other.....	214,223	-	-	214,223
Special assessments.....	131,508	-	84	131,592
Intergovernmental.....	6,137,269	-	276,052	6,413,321
Due from other funds.....	1,193,773	-	-	1,193,773
TOTAL ASSETS.....	\$ 10,819,438	\$ 1,229,479	\$ 3,761,268	\$ 15,810,185
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 841,748	\$ -	\$ 961,348	\$ 1,803,096
Accrued payroll.....	630,371	-	156,397	786,768
Liabilities due depositors.....	7,848	-	-	7,848
Payroll withholdings.....	15,665	-	-	15,665
Abandoned property.....	2,396	-	-	2,396
Other liabilities.....	44,976	-	-	44,976
Deferred revenues.....	7,353,911	-	275,211	7,629,122
Due to other funds.....	-	-	314,867	314,867
Notes payable.....	-	-	1,814,960	1,814,960
TOTAL LIABILITIES.....	8,896,915	-	3,522,783	12,419,698
 FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	408,853	-	-	408,853
Perpetual permanent funds.....	-	-	222,936	222,936
Unreserved:				
Designated for subsequent year's expenditures..	329,183	-	-	329,183
Undesignated, reported in:				
General fund.....	1,184,487	-	-	1,184,487
Special revenue funds.....	-	1,229,479	1,261,007	2,490,486
Capital projects funds.....	-	-	(1,352,049)	(1,352,049)
Permanent funds.....	-	-	106,591	106,591
TOTAL FUND BALANCES.....	1,922,523	1,229,479	238,485	3,390,487
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 10,819,438	\$ 1,229,479	\$ 3,761,268	\$ 15,810,185

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

Total governmental fund balances.....		\$ 3,390,487
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		36,324,545
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		7,629,122
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(98,665)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....	(17,449,572)	
Landfill closure.....	(306,000)	
Compensated absences.....	<u>(220,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(17,975,572)</u>
Net assets of governmental activities.....		<u>\$ 29,269,917</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	General	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 15,931,194	\$ -	\$ -	\$ 15,931,194
Tax liens.....	91,397	-	-	91,397
Motor vehicle and other excise taxes.....	1,274,995	-	-	1,274,995
Charges for services.....	-	-	372,815	372,815
Penalties and interest on taxes.....	109,731	-	883	110,614
Fees and rentals.....	418,974	-	1,917,458	2,336,432
Payments in lieu of taxes.....	1,651	-	-	1,651
Licenses and permits.....	161,526	-	-	161,526
Fines and forfeitures.....	79,375	-	11,966	91,341
Intergovernmental.....	9,019,875	-	2,168,002	11,187,877
Departmental and other.....	-	-	39,448	39,448
Special assessments.....	17,347	-	3,370	20,717
Contributions.....	-	-	231,781	231,781
Investment income.....	210,819	52,511	36,749	300,079
TOTAL REVENUES.....	27,316,884	52,511	4,782,472	32,151,867
EXPENDITURES:				
Current:				
General government.....	1,557,165	-	307,852	1,865,017
Public safety.....	2,161,390	-	1,011,476	3,172,866
Education.....	14,716,124	-	3,469,498	18,185,622
Public works.....	1,058,042	-	1,675,790	2,733,832
Human services.....	158,547	-	45,684	204,231
Culture and recreation.....	351,519	-	411,729	763,248
Pension benefits.....	3,055,820	-	-	3,055,820
Property and liability insurance.....	142,190	-	-	142,190
Employee benefits.....	1,768,517	-	-	1,768,517
State and county charges.....	734,464	-	-	734,464
Debt service:				
Principal.....	1,226,872	-	-	1,226,872
Interest.....	725,845	-	-	725,845
TOTAL EXPENDITURES.....	27,656,495	-	6,922,029	34,578,524
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(339,611)	52,511	(2,139,557)	(2,426,657)
OTHER FINANCING SOURCES (USES):				
Sale of capital assets.....	-	-	135,007	135,007
Transfers in.....	141,372	-	777,008	918,380
Transfers out.....	(538,694)	(250,000)	(141,372)	(930,066)
TOTAL OTHER FINANCING SOURCES (USES).....	(397,322)	(250,000)	770,643	123,321
NET CHANGE IN FUND BALANCES.....	(736,933)	(197,489)	(1,368,914)	(2,303,336)
FUND BALANCES AT BEGINNING.....	2,659,456	1,426,968	1,607,399	5,693,823
FUND BALANCES AT END OF YEAR.....	\$ 1,922,523	\$ 1,229,479	\$ 238,485	\$ 3,390,487

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, 2008

Net change in fund balances - total governmental funds..... \$ (2,303,336)

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

Capital outlay.....	2,129,438
Depreciation expense.....	<u>(1,485,535)</u>

Net effect of reporting capital assets..... 643,903

In the Statement of Activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold..... (173,283)

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..... (517,682)

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.....	<u>1,226,872</u>
--------------------------------------	------------------

Net effect of reporting long-term debt..... 1,226,872

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.....	28,000
Net change in accrued interest on long-term debt.....	8,227
Net change in landfill closure liability.....	<u>148,000</u>

Net effect of recording long-term liabilities and amortizing deferred losses..... 184,227

Change in net assets of governmental activities..... \$ (939,299)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Sewer	Solid Waste/ Recycling	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 5,567,816	\$ 587,553	\$ 6,155,369
Receivables, net of allowance for uncollectibles:			
User fees.....	34,216	-	34,216
Special assessments.....	72,510	-	72,510
Intergovernmental.....	75,958	-	75,958
Total current assets.....	<u>5,750,500</u>	<u>587,553</u>	<u>6,338,053</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	1,678,544	-	1,678,544
Special assessments.....	1,420,517	-	1,420,517
Capital assets, net of accumulated depreciation....	10,236,701	-	10,236,701
Total noncurrent assets.....	<u>13,335,762</u>	<u>-</u>	<u>13,335,762</u>
TOTAL ASSETS.....	<u>19,086,262</u>	<u>587,553</u>	<u>19,673,815</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	53,987	52,234	106,221
Accrued payroll.....	896	-	896
Accrued interest.....	113,314	-	113,314
Due to other funds.....	348,371	512,035	860,406
Bonds and notes payable.....	4,753,139	-	4,753,139
Total current liabilities.....	<u>5,269,707</u>	<u>564,269</u>	<u>5,833,976</u>
NONCURRENT:			
Bonds and notes payable.....	10,073,005	-	10,073,005
TOTAL LIABILITIES.....	<u>15,342,712</u>	<u>564,269</u>	<u>15,906,981</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	1,062,623	-	1,062,623
Unrestricted.....	2,680,927	23,284	2,704,211
TOTAL NET ASSETS.....	<u>\$ 3,743,550</u>	<u>\$ 23,284</u>	<u>\$ 3,766,834</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	<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	\$ 234,797	\$ 253,460	\$ 488,257
Connection fee.....	70,950	-	70,950
Licenses and permits.....	700	-	700
TOTAL OPERATING REVENUES	<u>306,447</u>	<u>253,460</u>	<u>559,907</u>
<u>OPERATING EXPENSES:</u>			
Salaries, wages, and fringe benefits	102,282	2,997	105,279
Maintenance and operations.....	189,854	470,369	660,223
Depreciation.....	226,385	-	226,385
TOTAL OPERATING EXPENSES	<u>518,521</u>	<u>473,366</u>	<u>991,887</u>
OPERATING INCOME (LOSS).....	<u>(212,074)</u>	<u>(219,906)</u>	<u>(431,980)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment income.....	11,288	5,011	16,299
Interest expense.....	(479,178)	-	(479,178)
Special assessments.....	2,234	-	2,234
Penalties and interest.....	45,012	-	45,012
Intergovernmental.....	273,881	-	273,881
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(146,763)</u>	<u>5,011</u>	<u>(141,752)</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>(358,837)</u>	<u>(214,895)</u>	<u>(573,732)</u>
<u>TRANSFERS:</u>			
Transfers in.....	-	11,686	11,686
CHANGE IN NET ASSETS.....	<u>(358,837)</u>	<u>(203,209)</u>	<u>(562,046)</u>
NET ASSETS AT BEGINNING OF YEAR (as restated)...	<u>4,102,387</u>	<u>226,493</u>	<u>4,328,880</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 3,743,550</u>	<u>\$ 23,284</u>	<u>\$ 3,766,834</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2008

	<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.....	\$ 336,872	\$ 253,460	\$ 590,332
Payments to vendors.....	(172,635)	(452,710)	(625,345)
Payments to employees.....	(101,386)	(2,997)	(104,383)
NET CASH FROM OPERATING ACTIVITIES.....	62,851	(202,247)	(139,396)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers in.....	-	11,686	11,686
Advances to/from other funds.....	284,578	444,021	728,599
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	284,578	455,707	740,285
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	4,154,298	-	4,154,298
Acquisition and construction of capital assets.....	(89,634)	-	(89,634)
Special assessments.....	229,226	-	229,226
Principal payments on bonds and notes.....	(674,423)	-	(674,423)
Interest expense.....	(208,040)	-	(208,040)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	3,411,427	-	3,411,427
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	11,288	5,011	16,299
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	3,770,144	258,471	4,028,615
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,797,672	329,082	2,126,754
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,567,816	\$ 587,553	\$ 6,155,369
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>			
<u>FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ (212,074)	\$ (219,906)	\$ (431,980)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	226,385	-	226,385
Other receipts from customers.....	45,012	-	45,012
Changes in assets and liabilities:			
User fees.....	(14,587)	-	(14,587)
Warrants payable.....	17,219	17,659	34,878
Accrued payroll.....	896	-	896
Total adjustments.....	274,925	17,659	292,584
NET CASH FROM OPERATING ACTIVITIES.....	\$ 62,851	\$ (202,247)	\$ (139,396)
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>			
Intergovernmental debt service subsidy.....	\$ 348,306	\$ -	\$ 348,306

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	<u>Private Purpose Trust Funds</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ <u>459,965</u>
LIABILITIES	
Due to other funds.....	<u>18,500</u>
NET ASSETS	
Held in trust for other purposes.....	\$ <u><u>441,465</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ 828
Net investment income (loss):	
Interest.....	<u>19,423</u>
TOTAL ADDITIONS.....	<u>20,251</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>16,690</u>
CHANGE IN NET ASSETS.....	3,561
NET ASSETS AT BEGINNING OF YEAR.....	<u>437,904</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 441,465</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 *stabilization fund* is used to account for the accumulation of resources to provide general and/or capital reserves.

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

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

The *permanent fund* is used to account for 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 beginning balance of this fund has been adjusted for an overstatement of an asset.

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.

Sewer User Fees

User fees consist of sewer 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. Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Sewer charges 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.

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)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the subsequent year’s operating budget.

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. Post Retirement benefits*Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50 to 80% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2008, this expense/expenditure totaled \$945,413. There were 123 participants eligible to receive benefits at June 30, 2008.

P. 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.

Q. 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.

R. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2008, within the special revenue and capital project funds. These deficits will be funded with grant and bond proceeds 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 \$11,254,166 and the bank balance totaled \$11,470,680. Of the bank balance, \$959,003 was covered by Federal Depository Insurance, \$3,251,505 was covered by the depositor’s insurance fund and \$7,260,172 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2008, the Town had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt Securities</u>			
Government Sponsored Enterprises.....	\$ 1,374,334	\$ 1,075,740	\$ 298,594
Corporate Bonds.....	225,551	225,551	-
Total Debt Securities.....	1,599,885	\$ 1,301,291	\$ 298,594
<u>Other Investments</u>			
Equity Mutual Funds.....	11,168		
Money Market Mutual Funds.....	210,819		
MMDT.....	430,757		
Total Investments.....	\$ 2,252,629		

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 \$1,599,885 because the government sponsored enterprise securities and corporate bonds are uninsured, unregistered and held by the counterparty. The Town does not have an investment policy for custodial credit risk.

Interest Rate Risk

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

Credit Risk

Standard and Poor’s Investors Service rated \$1,374,334 of government sponsored enterprise securities AAA and \$225,551 of corporate bonds were rated A. 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 have investments in corporate bonds or equity securities and therefore does not have exposure to concentration of credit risk.

NOTE 3 - RECEIVABLES

At June 30, 2008, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 442,610	\$ (40,000)	\$ 402,610
Tax liens and foreclosures.....	457,568	-	457,568
Motor vehicle and other excise taxes.....	158,637	(53,000)	105,637
Departmental and other.....	408,223	(194,000)	214,223
Special assessments.....	131,592	-	131,592
Intergovernmental.....	<u>6,413,321</u>	<u>-</u>	<u>6,413,321</u>
 Total.....	 <u>\$ 8,011,951</u>	 <u>\$ (287,000)</u>	 <u>\$ 7,724,951</u>

At June 30, 2008, receivables for the sewer enterprise fund are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Sewer user fees.....	\$ 34,216	\$ -	\$ 34,216
Special assessments.....	1,493,027	-	1,493,027
Intergovernmental.....	<u>1,754,502</u>	<u>-</u>	<u>1,754,502</u>
	 <u>\$ 3,281,745</u>	 <u>\$ -</u>	 <u>\$ 3,281,745</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.....	\$ 307,706	\$ -	\$ 307,706
Tax liens and foreclosures.....	457,568	-	457,568
Motor vehicle and other excise taxes.....	105,637	-	105,637
Departmental and other.....	214,223	-	214,223
Special assessments.....	131,508	84	131,592
Intergovernmental.....	6,137,269	275,127	6,412,396
 Total.....	 \$ 7,353,911	 \$ 275,211	 \$ 7,629,122

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, is as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,400,354	\$ -	\$ (110,000)	\$ 4,290,354
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	26,710,663	254,607	(92,048)	26,873,222
Machinery and equipment.....	2,508,577	1,049,813	-	3,558,390
Infrastructure.....	22,172,111	825,018	(174,922)	22,822,207
 Total capital assets being depreciated.....	 51,391,351	 2,129,438	 (266,970)	 53,253,819
<u>Less accumulated depreciation for:</u>				
Buildings.....	(4,940,476)	(652,419)	28,765	(5,564,130)
Machinery and equipment.....	(1,625,973)	(210,851)	-	(1,836,824)
Infrastructure.....	(13,371,331)	(622,265)	174,922	(13,818,674)
 Total accumulated depreciation.....	 (19,937,780)	 (1,485,535)	 203,687	 (21,219,628)
 Total capital assets being depreciated, net.....	 31,453,571	 643,903	 (63,283)	 32,034,191
 Total governmental activities capital assets, net.....	 \$ 35,853,925	 \$ 643,903	 \$ (173,283)	 \$ 36,324,545

Sewer Activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 11,274,431	\$ 89,634	\$ -	\$ 11,364,065
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(900,979)	(226,385)	-	(1,127,364)
Total sewer activities capital assets, net.....	<u>\$ 10,373,452</u>	<u>\$ (136,751)</u>	<u>\$ -</u>	<u>\$ 10,236,701</u>

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

Governmental Activities:

General government.....	\$ 34,917
Public safety.....	294,443
Education.....	439,829
Public works.....	663,278
Culture and recreation.....	<u>53,068</u>
Total depreciation expense - governmental activities.....	<u>\$ 1,485,535</u>

Business-Type Activities:

Sewer.....	<u>\$ 226,385</u>
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NOTE 5 - INTERFUND TRANSFERS/BALANCES

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

<u>Operating Transfers Out:</u>	<u>Operating Transfers In:</u>			
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Solid Waste Recycling Fund</u>	<u>Total</u>
General Fund.....	\$ -	\$ 527,008	\$ 11,686	\$ 538,694 (1)
Stabilization Fund.....	-	250,000	-	250,000 (2)
Nonmajor Governmental Funds....	<u>141,372</u>	<u>-</u>	<u>-</u>	<u>141,372 (3)</u>
	<u>\$ 141,372</u>	<u>\$ 777,008</u>	<u>\$ 11,686</u>	<u>\$ 930,066</u>

- (1) Represents budgeted transfers from the general fund to the zoning incentive stabilization fund, capital projects fund, and the solid waste recycling enterprise fund.
- (2) Represents a budgeted transfer from the stabilization fund to the capital projects fund for the purpose of funding the fiscal 2008 capital plan.
- (3) Represents budgeted transfers from septic receipts, sewer betterments and sale of real estate reserved for appropriation to the general fund to reimburse payments on long-term debt.

Interfund balances for the fiscal year ended June 30, 2008, are summarized as follows:

<u>Due to Other Funds:</u>	<u>Due From Other Funds</u>
	<u>General Fund</u>
Nonmajor Governmental Funds.. \$	314,867
Sewer Enterprise Fund.....	348,371
Solid Waste/Recycling.....	512,035
Private Purpose Trust Funds.....	<u>18,500</u>
	<u>\$ 1,193,773</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, 2008, are as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>
BAN	MWPAT - Wastewater Planning.....	1.76	12/31/2007	\$ 160,600	\$ -	\$ 160,600	\$ -
BAN	Track and Field.....	3.95	1/28/2008	200,000	-	200,000	-
BAN	MWPAT - Wastewater Planning.....	0.79	12/31/2008	-	280,000	-	280,000
BAN	Equipment.....	2.75	6/25/2009	-	1,009,960	-	1,009,960
BAN	Track and Field.....	2.75	6/25/2009	-	450,000	-	450,000
BAN	Landfill Engineering.....	2.75	6/25/2009	-	75,000	-	75,000
Total governmental activities short-term debt.....				<u>\$ 360,600</u>	<u>\$ 1,814,960</u>	<u>\$ 360,600</u>	<u>\$ 1,814,960</u>

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Ending Balance</u>
BAN	Wastewater Treatment.....	3.95	1/28/2008	\$ 200,000	\$ -	\$ 200,000	\$ -
BAN	Wastewater Treatment.....	2.75	6/25/2009	-	4,154,298	-	4,154,298
Total business-type activities short-term debt.....				<u>\$ 200,000</u>	<u>\$ 4,154,298</u>	<u>\$ 200,000</u>	<u>\$ 4,154,298</u>

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, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Beginning Balance	Proceeds	Payments	Ending Balance
Municipal Purpose.....	5.18	\$ 330,000	\$ -	\$ 120,000	\$ 210,000
Mass. Water Pollution Trust - Pool 4, Loan T5-97-1185.....	0.00	130,444	-	10,872	119,572
Municipal Purpose.....	4.79	385,000	-	100,000	285,000
Municipal Purpose-Public Safety Building.....	3.62	4,640,000	-	290,000	4,350,000
Municipal Purpose-School Construction.....	3.62	8,985,000	-	415,000	8,570,000
Municipal Purpose-Land Acquisition II.....	3.62	300,000	-	20,000	280,000
Municipal Purpose-Land Acquisition.....	3.62	150,000	-	10,000	140,000
Municipal Purpose-School Remodeling.....	3.94	130,000	-	10,000	120,000
Municipal Purpose-School Planning.....	3.94	85,000	-	5,000	80,000
Municipal Purpose-School Heating System.....	3.94	1,320,000	-	80,000	1,240,000
Municipal Purpose-Library.....	3.94	1,620,000	-	90,000	1,530,000
Municipal Purpose-Departmental Equipment I.....	3.94	260,000	-	20,000	240,000
Municipal Purpose-Departmental Equipment II.....	3.94	40,000	-	15,000	25,000
Municipal Purpose-Planning.....	3.94	25,000	-	10,000	15,000
Municipal Purpose-Parking Lot.....	3.94	70,000	-	15,000	55,000
Municipal Purpose-Landfill Closure.....	3.94	150,000	-	10,000	140,000
Municipal Purpose - Wastewater Planning.....	3.94	56,000	-	6,000	50,000
Total governmental bonds and notes payable.....		\$ 18,676,444	\$ -	\$ 1,226,872	\$ 17,449,572

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

Fiscal Year	Principal	Interest	Total
2009.....	\$ 1,230,872	\$ 699,168	\$ 1,930,040
2010.....	1,225,872	641,074	1,866,946
2011.....	1,115,872	600,227	1,716,099
2012.....	1,040,872	562,775	1,603,647
2013.....	1,050,872	530,577	1,581,449
2014.....	1,070,872	470,818	1,541,690
2015.....	1,090,868	427,597	1,518,465
2016.....	1,115,868	383,478	1,499,346
2017.....	1,125,868	338,657	1,464,525
2018.....	1,150,868	293,263	1,444,131
2019.....	1,170,868	247,208	1,418,076
2020.....	1,180,000	200,896	1,380,896
2021.....	1,185,000	153,669	1,338,669
2022.....	1,215,000	106,495	1,321,495
2023.....	1,220,000	56,733	1,276,733
2024.....	175,000	8,117	183,117
2025.....	95,000	2,176	97,176
Totals.....	\$ 17,459,572	\$ 5,722,928	\$ 23,182,500

The General Fund is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for interest costs totaling \$40,492. Thus, net MWPAT loan repayments, including interest, are schedule to be \$125,293. 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 2008 interest subsidy totaled \$5,720.

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	\$ 93,646	\$ -	\$ 8,225	\$ 85,421
Mass. Water Pollution Trust - Pool 5, Loan CW-98-70.....	1.83	280,771	-	18,115	262,656
Mass. Water Pollution Trust - Pool 7, Loan CW-00-39.....	various	1,639,826	-	95,658	1,544,168
Mass. Water Pollution Trust - Pool 9, Loan CW-00-39-A....	various	5,668,205	-	267,850	5,400,355
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-B....	0.00	89,123	-	-	89,123
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-C...	0.00	397,830	-	-	397,830
Mass. Water Pollution Trust - Pool 13, Loan CW-00-39-D...	0.00	282,293	-	-	282,293
Municipal Purpose - Sewer Construction.....	3.62	480,000	-	30,000	450,000
Municipal Purpose - Sewer Construction.....	3.94	385,000	-	25,000	360,000
Municipal Purpose - Sewer Construction.....	3.94	365,000	-	25,000	340,000
Municipal Purpose - Sewer Construction.....	3.94	850,000	-	45,000	805,000
Municipal Purpose - Sewer Construction.....	3.94	689,000	-	34,000	655,000
Total Sewer Enterprise bonds and notes payable.....		\$ 11,220,694	\$ -	\$ 548,848	\$ 10,671,846

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
2009.....	\$ 598,841	\$ 469,095	\$ 1,067,936
2010.....	612,300	448,084	1,060,384
2011.....	612,177	421,551	1,033,728
2012.....	629,959	396,921	1,026,880
2013.....	630,562	364,195	994,757
2014.....	646,339	333,048	979,387
2015.....	665,044	303,486	968,530
2016.....	674,761	270,277	945,038
2017.....	689,278	237,075	926,353
2018.....	697,531	202,392	899,923
2019.....	716,732	167,765	884,497
2020.....	740,635	134,098	874,733
2021.....	745,044	104,829	849,873
2022.....	620,230	74,842	695,072
2023.....	618,274	47,833	666,107
2024.....	592,683	20,321	613,004
2025.....	139,114	4,520	143,634
2026.....	14,114	-	14,114
2027.....	14,114	-	14,114
2028.....	14,114	-	14,114
Totals.....	\$ 10,671,846	\$ 4,000,332	\$ 14,672,178

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 \$1,754,502 and interest costs for \$2,314,367. Thus, net MWPAT loan repayments, including interest, are schedule to be \$6,652,553. The principal subsidies are guaranteed and therefore a \$1,754,502 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 2008 principal and interest subsidies totaled \$74,425 and \$273,881, 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 \$7,702,000 will be received in future fiscal years. Of this amount, approximately \$1,564,000 represents reimbursement of long-term interest costs, and approximately \$6,137,000 represents reimbursement of approved construction costs. Accordingly, a \$6,137,000 intergovernmental receivable and corresponding deferred revenue have been reported in 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, 2008, the Town had the following authorized and unissued debt.

Purpose	Amount
Sewer construction.....	\$ 406,972
Building renovation.....	125,000
School building heating.....	56,550
Wastewater management	241,000
Water and wastewater rural development.....	4,154,298
Track and field.....	450,000
Capital program.....	1,009,960
Landfill engineering and construction.....	75,000
Total.....	<u>\$ 6,518,780</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2008, 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.....	\$ 18,676,444	\$ -	\$ (1,226,872)	\$ 17,449,572	\$ 1,230,872
Landfill closure.....	454,000	-	(148,000)	306,000	17,000
Compensated absences.....	248,000	94,000	(122,000)	220,000	96,000
Total governmental.....	<u>\$ 19,378,444</u>	<u>\$ 94,000</u>	<u>\$ (1,496,872)</u>	<u>\$ 17,975,572</u>	<u>\$ 1,343,872</u>
Business-Type Activities:					
Long-term bonds and notes.....	<u>\$ 11,220,694</u>	<u>\$ -</u>	<u>\$ (548,848)</u>	<u>\$ 10,671,846</u>	<u>\$ 598,841</u>

NOTE 8 - 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 9 - 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 amount of these on-behalf payments totaled \$2,617,000 for the fiscal year ended June 30, 2008 and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Fixed Charge Expenditures.

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, 2008, 2007 and 2006 totaled \$438,971, \$435,584 and \$442,008, 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 10 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling approximately \$4,200,000 to complete the construction of water and wastewater systems. As of June 30, 2008 the Town has incurred expenditures totaling approximately \$346,000.

NOTE 11 - 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, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2008.

NOTE 12 – 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 \$306,000 post-closure care liability at June 30, 2008 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 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2008, the following GASB pronouncements were implemented:

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2008. The basic financial statements were not impacted by this GASB.

The GASB issued Statement #50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, which is required to be implemented in fiscal year 2008. This GASB changed the disclosures related to pensions.

The GASB issued Statement #53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented in fiscal year 2010. The standards require governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Management elected to implement this standard early and this standard did not impact the basic financial statements.

The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2008

	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.....	\$ -	\$ 16,047,007	\$ 16,047,007	\$ 16,077,007
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	1,330,000	1,330,000	1,330,000
Penalties and interest on taxes.....	-	85,000	85,000	85,000
Fees and rentals.....	-	496,000	496,000	496,000
Payments in lieu of taxes.....	-	1,600	1,600	1,600
Licenses and permits.....	-	200,000	200,000	200,000
Fines and forfeitures.....	-	65,000	65,000	65,000
Intergovernmental.....	-	6,321,312	6,321,312	6,327,032
Special assessments.....	-	26,000	26,000	26,000
Investment income.....	-	200,000	200,000	200,000
TOTAL REVENUES.....	-	24,771,919	24,771,919	24,807,639
EXPENDITURES:				
Current:				
General government.....	57,734	1,735,202	1,792,936	1,825,774
Public safety.....	676	2,120,117	2,120,793	2,198,571
Education.....	117,836	14,851,959	14,969,795	14,992,394
Public works.....	63,110	845,295	908,405	1,143,543
Human services.....	-	159,511	159,511	167,770
Culture and recreation.....	-	368,250	368,250	371,497
Pension benefits.....	-	438,971	438,971	438,971
Property and liability insurance.....	-	176,000	176,000	142,190
Employee benefits.....	-	1,789,382	1,789,382	1,768,517
State and county charges.....	-	684,878	684,878	684,878
Debt service:				
Principal.....	-	1,223,256	1,223,256	1,226,872
Interest.....	-	758,069	758,069	764,439
TOTAL EXPENDITURES.....	239,356	25,150,890	25,390,246	25,725,416
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(239,356)	(378,971)	(618,327)	(917,777)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	10,872	10,872	141,372
Transfers out.....	-	(154,045)	(154,045)	(538,694)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(143,173)	(143,173)	(397,322)
NET CHANGE IN FUND BALANCE.....	(239,356)	(522,144)	(761,500)	(1,315,099)
BUDGETARY FUND BALANCE, Beginning of year.....	-	2,659,456	2,659,456	2,659,456
BUDGETARY FUND BALANCE, End of year.....	\$ (239,356)	\$ 2,137,312	\$ 1,897,956	\$ 1,344,357

See notes to required supplementary information.

<u>Actual Budgetary Amounts</u>	<u>Amounts Carried Forward To Next Year</u>	<u>Variance To Final Budget</u>
\$ 15,836,288	\$ -	\$ (240,719)
91,397	-	91,397
1,274,995	-	(55,005)
109,731	-	24,731
418,974	-	(77,026)
1,651	-	51
161,526	-	(38,474)
79,375	-	14,375
6,403,026	-	75,994
17,347	-	(8,653)
<u>210,819</u>	<u>-</u>	<u>10,819</u>
<u>24,605,129</u>	<u>-</u>	<u>(202,510)</u>
1,557,165	140,621	127,988
2,161,390	25,270	11,911
14,716,124	196,290	79,980
1,058,042	46,672	38,829
158,547	-	9,223
351,519	-	19,978
438,971	-	-
142,190	-	-
1,768,517	-	-
734,464	-	(49,586)
1,226,872	-	-
<u>725,845</u>	<u>-</u>	<u>38,594</u>
<u>25,039,646</u>	<u>408,853</u>	<u>276,917</u>
<u>(434,517)</u>	<u>(408,853)</u>	<u>74,407</u>
141,372	-	-
<u>(538,694)</u>	<u>-</u>	<u>-</u>
<u>(397,322)</u>	<u>-</u>	<u>-</u>
(831,839)	(408,853)	74,407
<u>2,659,456</u>	<u>-</u>	<u>-</u>
<u>\$ 1,827,617</u>	<u>\$ (408,853)</u>	<u>\$ 74,407</u>

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)
01/01/07	\$ 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, 2007, is approximately 2%.

Worcester County Regional Retirement System
Schedule of Employer Contributions

Plan Year Ended December 31	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
2005	\$ 17,562,285	\$ 17,562,285	100%	\$ 369,912	2.11%
2006	21,012,959	21,012,959	100%	442,008	2.10%
2007	21,982,772	21,982,772	100%	435,584	1.98%
2008	22,997,682	22,997,682	100%	438,971	1.91%

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

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 2008 approved budget for the General Fund authorized approximately \$25,544,000 in appropriations and other amounts to be raised. During fiscal year 2008, Town Meeting also approved supplemental appropriations totaling approximately \$720,000.

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, 2008, is presented below:

Net change in fund balance - budgetary basis.....	\$ (831,839)
<u>Basis of accounting differences:</u>	
Net change in recording 60 day receipts.....	94,906
Recognition of revenue for on-behalf payments.....	2,616,849
Recognition of expenditures for on-behalf payments.....	<u>(2,616,849)</u>
Net change in fund balance - gaap basis.....	<u>\$ (736,933)</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2008, state and county charges exceeded appropriations. These over-expenditures will be funded with available funds in fiscal 2009.

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, 2007
 Actuarial Cost Method..... Entry Age Normal Cost Method
 Amortization Method..... Increasing at 4.5% per year, level dollar for ERI liability for certain units
 Remaining Amortization Period..... 21 years remaining as of July 1, 2007
 Asset Valuation Method..... The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.5%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five year period. This preliminary actuarial value is not allowed to differ from the market value of assets by more than 10%.

Actuarial Assumptions:

Investment rate of return..... 8.50%
 Projected salary increases..... 4.00%
 Cost of living adjustments..... 3.0% of the lesser of the pension amount and \$12,000 per year.

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	2,686
Inactive participants.....	2,155
Disabled.....	201
Active participants.....	<u>6,610</u>
 Total.....	 <u><u>11,652</u></u>