

TOWN OF LEICESTER, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2010

TOWN OF LEICESTER, MASSACHUSETTS
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JUNE 30, 2010

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Leicester, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Leicester, Massachusetts, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Leicester, Massachusetts' management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Leicester, Massachusetts, as of June 30, 2010, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2011, on our consideration of the Town of Leicester, 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 the schedule of revenues, expenditures and changes in fund balance - general fund - budget and actual, retirement system schedule of funding progress, retirement system schedule of employer contributions, other post employment benefits schedule of funding progress and other post employment benefits actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

July 27, 2011

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Leicester, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Leicester'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. This report also contains other required supplementary information in addition to the basic 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*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation, and debt service expenditures.

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 two categories: governmental 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 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 Leicester adopts an annual budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

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

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. Assets exceeded liabilities for governmental activities by \$38.2 million at the close of FY2010.

	<u>FY2010</u>	<u>FY2009</u>
Assets:		
Current assets..... \$	10,016,699 \$	9,969,390
Noncurrent assets (excluding capital).....	1,719,000	2,247,000
Capital assets.....	42,148,515	44,087,004
Total assets.....	53,884,214	56,303,394
Liabilities:		
Current liabilities (excluding debt).....	2,193,609	2,528,808
Noncurrent liabilities (excluding debt).....	3,020,832	1,632,059
Current debt.....	1,511,742	1,937,828
Noncurrent debt.....	8,975,404	9,921,867
Total liabilities.....	15,701,587	16,020,562
Net Assets:		
Capital assets net of related debt.....	34,040,505	35,178,767
Restricted.....	1,680,633	1,222,641
Unrestricted.....	2,461,489	3,881,424
Total net assets..... \$	38,182,627 \$	40,282,832

Net assets of \$34 million (89%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment), less any related debt used to acquire those assets that is 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 \$1.7 million (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$2.5 million (7%) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>FY2010</u>	<u>FY2009</u>
Program revenues:		
Charges for services..... \$	2,060,552 \$	2,400,958
Operating grants and contributions.....	16,326,175	15,484,696
Capital grants and contributions.....	81,964	644,801
General Revenues:		
Real estate and personal property taxes.....	11,087,214	10,862,013
Tax liens.....	27,134	-
Motor vehicle and other excise taxes.....	957,681	1,070,226
Penalties and interest on taxes.....	117,940	95,700
Payments in lieu of taxes.....	46,393	46,393
Nonrestricted grants.....	1,711,008	2,103,090
Unrestricted investment income.....	67,876	150,872
Other revenues.....	13,463	8,282
Total revenues.....	32,497,400	32,867,031
Expenses:		
General Government.....	1,984,866	2,570,284
Public Safety.....	4,116,161	3,423,559
Education.....	24,656,861	24,734,207
Public Works.....	2,602,597	2,655,271
Human Services.....	512,703	799,858
Culture and Recreation.....	295,611	285,239
Interest.....	428,806	468,169
Total expenses.....	34,597,605	34,936,587
Change in net assets..... \$	<u>(2,100,205) \$</u>	<u>(2,069,556)</u>

The governmental expenses totaled \$34.6 million of which \$18.5 million (53%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$14 million, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges.

Governmental activities decreased the Town's net assets by \$2.1 million. This decrease is primarily the result of a \$1.4 million increase in the liability for other postemployment benefits and a \$563,000 decrease in capital grants and contributions received by the Town.

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 \$6.4 million, an increase of \$1.2 million.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.4 million, while total fund balance was \$1.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5% of total general fund expenditures, while total fund balance represents 6% of that same amount.

General Fund Budgetary Highlights

There was a \$168,000 increase between the original and final budget. This change was primarily due to snow & ice (\$82,000), unemployment (\$70,000) and storm water management (\$19,000).

Capital Asset and Debt Administration

The Town's investment in capital assets as of June 30, 2010 amounts to \$42.1 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Outstanding long-term debt for governmental activities, as of June 30, 2010, totaled \$10.3 million, of which \$3.6 million is related to school construction and remodeling, \$2.7 million for the police station, \$2.2 million for the acquisition of the Hillcrest Country Club, \$1.2 million for water mains and pump station, \$257,000 for Title V septic loans and \$389,000 for Town Hall repairs.

Please refer to notes 4, 6 and 7 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 Leicester'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, 3 Washburn Square, Leicester, Massachusetts 01524.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

		Primary Government
		Governmental Activities
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$	8,340,196
Investments.....		56,207
Receivables, net of allowance for uncollectibles:		
Real estate and personal property taxes.....		284,571
Tax liens.....		173,268
Motor vehicle excise taxes.....		112,102
Departmental and other.....		240,982
Intergovernmental.....		809,373
NONCURRENT:		
Receivables, net of allowance for uncollectibles:		
Intergovernmental.....		1,719,000
Capital assets, nondepreciable.....		4,870,740
Capital assets, net of accumulated depreciation.....		37,277,775
TOTAL ASSETS.....		53,884,214
LIABILITIES		
CURRENT:		
Warrants payable.....		716,305
Accrued payroll.....		988,662
Tax refunds payable.....		154,718
Accrued interest.....		132,143
Other liabilities.....		21,781
Compensated absences.....		180,000
Bonds and notes payable.....		1,511,742
NONCURRENT:		
Compensated absences.....		304,000
Other postemployment benefits.....		2,716,832
Bonds and notes payable.....		8,975,404
TOTAL LIABILITIES.....		15,701,587
NET ASSETS		
Invested in capital assets, net of related debt.....		34,040,505
Restricted for:		
Permanent funds:		
Expendable.....		1,356,325
Nonexpendable.....		32,519
Other purposes.....		291,789
Unrestricted.....		2,461,489
TOTAL NET ASSETS.....	\$	38,182,627

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
Governmental Activities:						
General government.....	\$ 1,984,866	\$ 274,221	\$ 311,739	\$ -	\$ (1,398,906)	
Public safety.....	4,116,161	1,256,532	56,960	-	(2,802,669)	
Education.....	24,656,861	458,114	15,257,073	-	(8,941,674)	
Public works.....	2,602,597	42,487	147,148	81,964	(2,330,998)	
Human services.....	512,703	5,400	541,350	-	34,047	
Culture and recreation.....	295,611	23,798	11,905	-	(259,908)	
Interest.....	428,806	-	-	-	(428,806)	
Total Governmental Activities.....	\$ 34,597,605	\$ 2,060,552	\$ 16,326,175	\$ 81,964	\$ (16,128,914)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government
	Governmental Activities
Changes in net assets:	
Net (expense) revenue from previous page.....	\$ (16,128,914)
<i>General revenues:</i>	
Real estate and personal property taxes, net of tax refunds payable.....	11,087,214
Tax liens	27,134
Motor vehicle and other excise taxes.....	957,681
Penalties and interest on taxes.....	117,940
Payments in lieu of taxes.....	46,393
Grants and contributions not restricted to specific programs.....	1,711,008
Unrestricted investment income.....	67,876
Miscellaneous.....	13,463
Total general revenues.....	14,028,709
Change in net assets.....	(2,100,205)
<i>Net Assets:</i>	
Beginning of year.....	40,282,832
End of year.....	\$ 38,182,627

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 3,481,661	\$ 750,063	\$ 4,108,472	\$ 8,340,196
Investments.....	-	-	56,207	56,207
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	284,571	-	-	284,571
Tax liens.....	173,268	-	-	173,268
Motor vehicle excise taxes.....	112,102	-	-	112,102
Departmental and other.....	21,899	-	219,083	240,982
Intergovernmental.....	2,248,000	-	280,373	2,528,373
TOTAL ASSETS.....	\$ 6,321,501	\$ 750,063	\$ 4,664,135	\$ 11,735,699
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 641,682	\$ -	\$ 74,623	\$ 716,305
Accrued payroll.....	988,662	-	-	988,662
Tax refunds payable.....	154,718	-	-	154,718
Other liabilities.....	21,781	-	-	21,781
Deferred revenues.....	2,839,840	-	484,837	3,324,677
Notes payable.....	-	-	176,600	176,600
TOTAL LIABILITIES.....	4,646,683	-	736,060	5,382,743
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	249,413	-	-	249,413
Perpetual permanent funds.....	-	-	32,519	32,519
Unreserved:				
Designated for subsequent year's expenditures.....	159,300	-	-	159,300
Undesignated, reported in:				
General fund.....	1,266,105	-	-	1,266,105
Special revenue funds.....	-	750,063	2,434,695	3,184,758
Capital projects funds.....	-	-	104,536	104,536
Permanent funds.....	-	-	1,356,325	1,356,325
TOTAL FUND BALANCES.....	1,674,818	750,063	3,928,075	6,352,956
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 6,321,501	\$ 750,063	\$ 4,664,135	\$ 11,735,699

See notes to basic financial statements.

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

JUNE 30, 2010

Total governmental fund balances.....	\$ 6,352,956
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	42,148,515
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	3,324,677
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(132,143)
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.....	(10,310,546)
Compensated absences.....	(484,000)
Other postemployment benefits.....	<u>(2,716,832)</u>
Net effect of reporting long-term liabilities.....	<u>(13,511,378)</u>
Net assets of governmental activities.....	<u>\$ 38,182,627</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 11,123,676	\$ -	\$ -	\$ 11,123,676
Tax liens.....	30,419	-	-	30,419
Motor vehicle and other excise taxes.....	984,945	-	-	984,945
Penalties and interest on taxes.....	117,940	-	-	117,940
Payments in lieu of taxes.....	46,393	-	-	46,393
Intergovernmental.....	14,936,779	-	3,560,546	18,497,325
Departmental and other.....	315,394	-	1,618,640	1,934,034
Contributions.....	-	-	496,700	496,700
Investment income.....	54,278	5,250	12,561	72,089
TOTAL REVENUES.....	27,609,824	5,250	5,688,447	33,303,521
EXPENDITURES:				
Current:				
General government.....	1,301,150	-	241,406	1,542,556
Public safety.....	2,337,147	-	673,862	3,011,009
Education.....	15,518,712	-	2,608,491	18,127,203
Public works.....	896,616	-	454,868	1,351,484
Human services.....	246,390	-	110,356	356,746
Culture and recreation.....	163,668	-	65,386	229,054
Pension benefits.....	3,391,405	-	-	3,391,405
Employee benefits.....	2,422,893	-	-	2,422,893
State and county charges.....	304,559	-	-	304,559
Debt service:				
Principal.....	1,315,075	-	-	1,315,075
Interest.....	437,528	-	-	437,528
TOTAL EXPENDITURES.....	28,335,143	-	4,154,369	32,489,512
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(725,319)	5,250	1,534,078	814,009
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	-	388,679	388,679
Transfers in.....	1,095,441	-	28,400	1,123,841
Transfers out.....	(28,400)	(617,000)	(478,441)	(1,123,841)
TOTAL OTHER FINANCING SOURCES (USES).....	1,067,041	(617,000)	(61,362)	388,679
NET CHANGE IN FUND BALANCES.....	341,722	(611,750)	1,472,716	1,202,688
FUND BALANCES AT BEGINNING OF YEAR.....	1,333,096	1,361,813	2,455,359	5,150,268
FUND BALANCES AT END OF YEAR.....	\$ 1,674,818	\$ 750,063	\$ 3,928,075	\$ 6,352,956

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, 2010

Net change in fund balances - total governmental funds.....	\$ 1,202,688
<p>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:</p>	
Capital outlay.....	471,084
Depreciation expense.....	<u>(2,409,573)</u>
Net effect of reporting capital assets.....	(1,938,489)
<p>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.....</p>	
	(879,549)
<p>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:</p>	
Proceeds from bonds and notes.....	(388,679)
Debt service principal payments.....	<u>1,315,075</u>
Net effect of reporting long-term debt.....	926,396
<p>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:</p>	
Net change in compensated absences accrual.....	(60,000)
Net change in accrued interest on long-term debt.....	8,722
Other postemployment benefits.....	<u>(1,359,973)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	<u>(1,411,251)</u>
Change in net assets of governmental activities.....	<u>\$ (2,100,205)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	<u>Agency Funds</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ <u>854,814</u>
LIABILITIES	
Warrants payable.....	136,245
Liabilities due depositors.....	466,676
Other liabilities.....	<u>251,893</u>
TOTAL LIABILITIES.....	\$ <u><u>854,814</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town of Leicester, Massachusetts was incorporated in 1722 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, 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. The Town has no component units.

The Town is responsible for electing the governing body of the Leicester Housing Authority. The Town is also responsible for the collection of taxes of the Oxford/Rochdale Sewer District, Cherry Valley/Rochdale Water District, Cherry Valley Sewer District, Leicester Water Supply District, Hillcrest Water District, Stiles Water District, and Cedar Meadow Lake Watershed District, which are autonomous entities of the Town. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board or handling the tax collections of the districts. Audited financial statements are available from the respective organizations.

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 and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental 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 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.

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 resources that are available to the Town for general and/or capital purposes upon Town Meeting approval.

The nonmajor governmental funds consist of special revenue, capital project, 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 Trust 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.

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 types are reported:

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

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

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 in the Town 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.

Departmental and Other

Departmental and other receivables consist primarily of ambulance, veteran's benefits, and police details and are recorded as receivables in the fiscal year accrued.

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

Special Assessments

Special assessments not yet due consist of betterment agreements/loans for the repair, replacement, and/or upgrade of a failed septic system that are to be repaid to the Town. The repayments range from 10 to 20 years.

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

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, construction in progress, buildings and improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental activity column of the government-wide financial statements, and 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 \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and Improvements.....	5-50
Machinery.....	3-10
Equipment.....	3-10
Infrastructure.....	20-50

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

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 and internal service 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 operating transfers in and operating transfers out.

Government-Wide Financial Statements

Operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities.

Fund Financial Statements

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

K. 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.

L. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net Assets reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state’s school building program is not considered to be capital related debt.

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 - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other purposes” 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 subsequent year’s expenditures,” which represent amounts appropriated for the fiscal year 2011 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. Bonds payable are reported net of the applicable bond premium or discount.

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

Excluding the permanent funds, 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 time is reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

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

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

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

P. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

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 combined balance sheet as "Cash and Short-term Investments". 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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the even of a bank failure, the Town's deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$8,452,032 and the bank balance totaled \$8,608,741. Of the bank balance, \$1,265,947 was covered by Federal Depository Insurance, \$6,336,835 was covered by the Depository Trust Fund and \$1,005,959 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2010, the Town had the following investments:

<u>Other Investments</u>	
Mutual Funds.....	56,207
MMDT.....	<u>742,978</u>
Total Investments.....	<u>\$ 799,185</u>

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. MMDT qualifies as an external investment pool and therefore is not exposed to custodial credit risk.

Interest Rate Risk

The Town's formal investment policy limits investment maturities to one year or less, thus managing its exposure to fair value losses arising from increasing interest rates.

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

Credit Risk

The Town's investment in MMDT is unrated.

NOTE 3 – RECEIVABLES

At June 30, 2010, receivables for the individual major governmental funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 284,571	\$ -	\$ 284,571
Tax liens.....	173,268	-	173,268
Motor vehicle and other excise taxes.....	128,102	(16,000)	112,102
Departmental and other.....	674,982	(434,000)	240,982
Intergovernmental.....	<u>2,528,373</u>	<u>-</u>	<u>2,528,373</u>
Total.....	<u>\$ 3,789,296</u>	<u>\$ (450,000)</u>	<u>\$ 3,339,296</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.....	\$ 3,005	\$ -	\$ 3,005
Tax liens.....	173,268	-	173,268
Motor vehicle and other excise taxes.....	112,102	-	112,102
Departmental and other.....	240,982	-	240,982
Intergovernmental.....	2,310,483	484,837	2,795,320
Total.....	<u>\$ 2,839,840</u>	<u>\$ 484,837</u>	<u>\$ 3,324,677</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,870,740	\$ -	\$ -	\$ 4,870,740
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	25,481,757	52,260	-	25,534,017
Machinery and equipment.....	3,925,382	85,847	(186,634)	3,824,595
Infrastructure.....	62,963,385	332,977	(117,360)	63,179,002
Total capital assets being depreciated.....	92,370,524	471,084	(303,994)	92,537,614
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(12,686,954)	(836,249)	-	(13,523,203)
Machinery and equipment.....	(2,614,861)	(296,193)	186,634	(2,724,420)
Infrastructure.....	(37,852,445)	(1,277,131)	117,360	(39,012,216)
Total accumulated depreciation.....	(53,154,260)	(2,409,573)	303,994	(55,259,839)
Total capital assets being depreciated, net.....	39,216,264	(1,938,489)	-	37,277,775
Total governmental activities capital assets, net.....	<u>\$ 44,087,004</u>	<u>\$ (1,938,489)</u>	<u>\$ -</u>	<u>\$ 42,148,515</u>

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

Governmental Activities:

General Government.....	\$	26,373
Public Safety.....		298,699
Education.....		635,325
Public Works.....		1,347,724
Human Services.....		88,360
Culture and recreation.....		13,092
		<u>13,092</u>
Total depreciation expense.....	\$	<u>2,409,573</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

Operating Transfers Out:	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 28,400	\$ 28,400
Stabilization.....	617,000	-	617,000
Nonmajor Governmental Funds.....	478,441	-	478,441
	<u>478,441</u>	<u>-</u>	<u>478,441</u>
Total.....	\$ <u>1,095,441</u>	\$ <u>28,400</u>	\$ <u>1,123,841</u>

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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2010, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2010
BAN	Town Hall and Memorial School Roof Repairs.....	2.40%	08/14/09	\$ 444,353	\$ -	\$ 444,353	\$ -
BAN	Town Hall Repairs.....	3.50%	12/18/09	28,400	-	28,400	-
BAN	Ice Storm.....	1.19%	12/18/09	150,000	-	150,000	-
BAN	Town Hall and Memorial School Roof Repairs.....	1.90%	08/13/10	-	416,516	416,516	-
BAN	Town Hall Renovations.....	1.37%	08/13/10	-	26,600	-	26,600
BAN	Ice Storm.....	1.37%	12/17/10	-	150,000	-	150,000
Total short-term debt.....				\$ 622,753	\$ 593,116	\$ 1,039,269	\$ 176,600

On August 6, 2010 the Town converted their Town Hall and Memorial School Roof Repair BAN in the amount of \$416,516 to long term debt, along with making a \$27,837 cash payment. The total long term debt outstanding was \$388,679.

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized 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, 2010, and the debt service requirements for the governmental funds are as follows:

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Police Station Land Acquisition.....	3.99	\$ 250,000	\$ -	\$ 25,000	\$ 225,000
Police Station.....	4.13	2,605,000	-	180,000	2,425,000
Hillcrest Country Club Land Acquisition.....	4.13	2,370,000	-	160,000	2,210,000
School Repairs and Remodeling.....	3.68	120,000	-	20,000	100,000
New High School.....	2.9	4,265,000	-	800,000	3,465,000
Installation of Water Mains.....	3.74	1,200,000	-	100,000	1,100,000
Installation of Water Mains and Pump Station....	4.13	150,000	-	10,000	140,000
MWPAT Title V Septic Repair Loan - Round 1...	0.0	110,502	-	10,067	100,435
MWPAT Title V Septic Repair Loan - Round 2...	0.0	47,445	-	3,397	44,048
MWPAT Title V Septic Repair Loan - Round 3...	0.0	118,995	-	6,611	112,384
Town Hall Repairs and Memorial School Roof....	4.2	-	388,679	-	388,679
Total governmental bonds payable.....		\$ 11,236,942	\$ 388,679	\$ 1,315,075	\$ 10,310,546

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 1,335,142	\$ 387,729	\$ 1,722,871
2012.....	1,398,821	351,249	1,750,070
2013.....	1,425,041	305,585	1,730,626
2014.....	1,455,125	256,997	1,712,122
2015.....	545,125	190,081	735,206
2016.....	524,944	168,538	693,482
2017.....	524,944	147,641	672,585
2018.....	524,944	126,438	651,382
2019.....	514,944	104,911	619,855
2020.....	509,944	83,406	593,350
2021.....	499,991	62,130	562,121
2022.....	345,070	43,809	388,879
2023.....	345,070	29,231	374,301
2024.....	341,611	14,573	356,184
2025.....	6,610	-	6,610
2026.....	6,610	-	6,610
2027.....	6,610	-	6,610
Total.....	\$ <u>10,310,546</u>	\$ <u>2,272,318</u>	\$ <u>12,582,864</u>

The Commonwealth has approved school construction assistance for the Town. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2010, approximately \$622,000 of such assistance was received. Approximately \$2,490,000 will be received in future fiscal years. Of this amount, approximately \$242,000 represents reimbursement of long-term interest costs, and approximately \$2,248,000 represents reimbursement of approved construction costs. Accordingly, a \$2,248,000 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 scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for interest in the amount of \$42,307. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$256,867. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2010 interest subsidy totaled \$8,080.

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, 2010, the Town had the following authorized and unissued debt:

Purpose	Amount
Repairs, Replacement, Upgrade of Septic Systems.....	\$ 303,191
Land Acquisition - Pleasant Street (Hillcrest Country Club).....	100,000
2008 Ice Storm.....	400,000
Town Hall Renovations.....	26,600
Repairs of School Roof.....	416,516
Total.....	<u>\$ 1,246,307</u>

Changes in Long-term Liabilities

The Town records its liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the Town are its obligations under claims and judgments and vacation and sick pay benefits. These liabilities will be liquidated in the future from governmental funds.

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities reported in the General Long-Term Obligations Account Group:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term bonds and notes.....	\$ 11,236,942	\$ 388,679	\$ (1,315,075)	\$ 10,310,546	\$ 1,335,142
Other postemployment benefits.....	1,356,859	2,026,178	(666,205)	2,716,832	-
Compensated Absences.....	424,000	208,800	(148,800)	484,000	180,000
Total.....	<u>\$ 13,017,801</u>	<u>\$ 2,623,657</u>	<u>\$ (2,130,080)</u>	<u>\$ 13,511,378</u>	<u>\$ 1,515,142</u>

NOTE 8 - STABILIZATION FUND

At June 30, 2010, \$750,000 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements. The fund may be used for general and/or capital purposes upon Town Meeting approval. The fund decreased by approximately \$611,000 during fiscal 2010 due to a transfer to the general fund.

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active employees.

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Worcester Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$2,735,000 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and pension 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 and are deposited into the pension fund. 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 unaudited 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 25 Linnell Circle, Billerica, MA 01821.

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 that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The contributions to the System for the fiscal years then ended June 30, 2010, 2009 and 2008 were approximately \$724,000, \$615,000, and \$520,000 respectively, which equaled its required contribution for each fiscal year.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 50 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs. For fiscal year 2010, the Town contributed \$666,205 million to the plan.

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

Annual required contribution.....	\$ 2,021,885
Interest on net OPEB obligation.....	57,667
Adjustments to annual required contribution.....	<u>(53,374)</u>
Annual OPEB cost (expense).....	2,026,178
Contributions made.....	<u>(666,205)</u>
Increase in net OPEB obligation.....	1,359,973
Net OPEB obligation--beginning of year.....	<u>1,356,859</u>
Net OPEB obligation--end of year.....	<u>\$ 2,716,832</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions Made</u>	<u>Percentage Contributed</u>
6/30/2010	\$ 2,021,885	666,205	\$ 33%
6/30/2009	1,938,637	581,778	30%

Funded Status and Funding Progress – As of January 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$21,840,178 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$14,354,000, and the ratio of the UAAL to the covered payroll was 152.2 percent.

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

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

In the January 1, 2009, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.25% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of .72% to 28% initially, graded to 5% to 6% over 10 years. Both

rates included a 3% inflation assumption. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 3.25% per year. The remaining amortization period at June 30, 2010 is 28 years.

NOTE 12 - CONTINGENCIES

Various legal actions and claims are pending. 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, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #53, Accounting and Financial Reporting for Derivative Instruments, which is required to be implemented in fiscal 2010. The standards in this statement require all derivative instruments be reported at fair value. Management does not expect this pronouncement to impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, which is required to be implemented in fiscal year 2011. 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, 2010

	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.....	\$ -	\$ 11,231,027	\$ 11,231,027	\$ 11,231,027
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	1,000,000	1,000,000	1,000,000
Penalties and interest on taxes.....	-	90,000	90,000	90,000
Payments in lieu of taxes.....	-	-	-	-
Intergovernmental.....	-	11,958,970	11,958,970	11,958,970
Departmental and other.....	-	323,000	323,000	323,000
Investment income.....	-	57,000	57,000	57,000
TOTAL REVENUES.....	-	24,659,997	24,659,997	24,659,997
EXPENDITURES:				
Current:				
General government.....	156,388	1,444,336	1,600,724	1,624,124
Public safety.....	19,998	2,423,134	2,443,132	2,444,632
Education.....	990,055	16,088,929	17,078,984	17,078,984
Public works.....	2,084	828,553	830,637	931,837
Human services.....	199	278,097	278,296	278,296
Culture and recreation.....	-	171,299	171,299	171,299
Pension benefits.....	-	656,405	656,405	656,405
Employee benefits.....	415	2,490,560	2,490,975	2,533,175
State and county charges.....	-	356,056	356,056	356,056
Debt service:				
Principal.....	-	1,316,312	1,316,312	1,316,312
Interest.....	-	434,205	434,205	434,205
TOTAL EXPENDITURES.....	1,169,139	26,487,886	27,657,025	27,825,325
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,169,139)	(1,827,889)	(2,997,028)	(3,165,328)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	1,069,168	1,069,168	1,069,168
Transfers out.....	-	(28,400)	(28,400)	(28,400)
TOTAL OTHER FINANCING SOURCES (USES).....	-	1,040,768	1,040,768	1,040,768
NET CHANGE IN FUND BALANCE.....	(1,169,139)	(787,121)	(1,956,260)	(2,124,560)
BUDGETARY FUND BALANCE, Beginning of year.....	2,447,600	2,447,600	2,447,600	2,447,600
BUDGETARY FUND BALANCE, End of year.....	\$ 1,278,461	\$ 1,660,479	\$ 491,340	\$ 323,040

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Budget
\$ 11,238,197	\$ -	\$ 7,170
30,419	-	30,419
984,945	-	(15,055)
117,940	-	27,940
46,393	-	46,393
12,193,699	-	234,729
315,394	-	(7,606)
54,278	-	(2,722)
<u>24,981,265</u>	<u>-</u>	<u>321,268</u>
1,301,150	143,568	179,406
2,337,147	2,216	105,269
15,813,389	883,260	382,335
896,616	-	35,221
246,390	-	31,906
163,668	-	7,631
656,405	-	-
2,422,893	-	110,282
304,559	-	51,497
1,316,312	-	-
429,448	-	4,757
<u>25,887,977</u>	<u>1,029,044</u>	<u>908,304</u>
<u>(906,712)</u>	<u>(1,029,044)</u>	<u>1,229,572</u>
1,095,441	-	26,273
(28,400)	-	-
<u>1,067,041</u>	<u>-</u>	<u>26,273</u>
160,329	(1,029,044)	1,255,845
<u>2,447,600</u>	<u>-</u>	<u>-</u>
<u>\$ 2,607,929</u>	<u>\$ (1,029,044)</u>	<u>\$ 1,255,845</u>

Retirement System Schedules of Funding Progress and Employer Contributions

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

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

**Worcester 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%.

See notes to required supplementary information.

**Worcester Regional Retirement System
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Town of Leicester	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2005	\$ 17,562,285	\$ 17,562,285	100%	\$ 423,235	2.41%
2006	21,012,959	21,012,959	100%	502,452	2.39%
2007	21,982,772	21,982,772	100%	513,308	2.34%
2008	22,997,682	22,997,682	100%	520,310	2.26%
2009	26,400,000	26,400,000	100%	614,518	2.33%
2010	28,800,000	28,800,000	100%	723,537	2.51%

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

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

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

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2009	\$ -	\$ 21,840,178	\$ 21,840,178	0%	\$ 14,354,000	152.2%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2010	\$ 2,021,885	\$ 666,205	33%
6/30/2009	1,938,637	581,778	30%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2010

Actuarial Methods:

Valuation date	January 1, 2009
Actuarial cost method	Projected credit unit
Amortization method	30 year level assuming a 3.25% annual increase
Remaining amortization period	28 years as of June 30, 2010

Actuarial Assumptions:

Investment rate of return	4.25%, pas-as-you-go scenario
Medical/drug cost trend rate	.72% to 28% initially, then decreasing to 6% within 10 years
Inflation rate	3.00%

Plan Membership:

Current retirees, beneficiaries, and dependents	155
Current active members	<u>321</u>
Total	<u><u>476</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by the Town Administrator and the Selectmen. The Town Administrator presents an annual budget to the Selectmen, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Town, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires Town Meeting approval via a supplemental appropriation.

The majority of 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 (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, 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 at Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2010 approved budget authorized approximately \$26,516,000 million in appropriations and other amounts to be raised and approximately \$1,169,000 million in encumbrances and continuing appropriations carried over from previous fiscal years. Supplemental appropriations of approximately \$168,000 were approved during fiscal year 2010.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) 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, 2010, is presented below:

Net change in fund balance, budgetary basis.....	\$	160,329
<u>Basis of accounting differences:</u>		
Net change in tax refunds payable.....		(74,681)
Net change in recording teachers summer pay.....		162,697
Net change in revenue accruals.....		(39,840)
Net change in expenditure accruals.....		133,217
Increase in revenues due to on-behalf payments.....		2,735,000
Increase in expenditures due to on-behalf payments....		<u>(2,735,000)</u>
Net change in fund balances, GAAP basis.....	\$	<u>341,722</u>

NOTE B – PENSION PLAN

Plan Description - The Town contributes to the Worcester Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension 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 systemwide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

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.

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 unity
Remaining Amortization Period.....	32 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>

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

The Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers.

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

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

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

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