

***TOWN OF LEICESTER, MASSACHUSETTS***

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

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

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

JUNE 30, 2011

**TABLE OF CONTENTS**

Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements .....	8
Statement of Net Assets .....	9
Statement of Activities .....	10
Governmental funds – balance sheet .....	12
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets .....	13
Governmental funds – statement of revenues, expenditures and changes in fund balances .....	14
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	15
Fiduciary funds – statement of fiduciary net assets.....	16
Notes to basic financial statements .....	17
Required Supplementary Information.....	37
Schedule of revenues, expenditures and changes in fund balance-general fund-budget to actual.....	38
Retirement System Schedules.....	40
Retirement system schedule of funding progress .....	41
Retirement system schedule of employer contributions .....	42
<i>Other Postemployment Benefits Plan Schedules</i> .....	43
Other postemployment benefit plan funding progress and employer contributions.....	44
Other postemployment benefit plan actuarial methods and assumptions .....	45
Notes to required supplementary information.....	46



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

[www.powersandsullivan.com](http://www.powersandsullivan.com)

## 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, 2011, 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.

We were unable to obtain sufficient audit evidence to satisfy ourselves as to the accuracy of the amounts reported in areas of the financial statements. The Town's control activities for its accounting system did not completely reconcile cash; nor did the Town have controls in place to ensure that all transactions were properly recorded. Consequently there was not sufficient audit evidence to support the activities and balances of all funds.

In our opinion, based on our audit, except for the effects described in the paragraph above, the 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, 2011, 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 October 30, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, located on the following pages, and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financials statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information

and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Powers & Sullivan LLC". The signature is written in a cursive, flowing style.

October 30, 2012

# ***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, 2011. 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.

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

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 \$36 million at the close of FY2011.

	<u>FY2011</u>	<u>FY2010</u>
<b>Assets:</b>		
Current assets.....\$	9,630,234 \$	10,016,699
Noncurrent assets (excluding capital).....	1,170,000	1,719,000
Capital assets.....	40,763,582	42,148,515
<b>Total assets.....</b>	<b>51,563,816</b>	<b>53,884,214</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	2,238,874	2,193,609
Noncurrent liabilities (excluding debt).....	4,308,045	3,020,832
Current debt.....	1,398,821	1,511,742
Noncurrent debt.....	7,576,583	8,975,404
<b>Total liabilities.....</b>	<b>15,522,323</b>	<b>15,701,587</b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	33,588,394	34,040,505
Restricted.....	4,347,700	1,680,633
Unrestricted.....	(1,894,601)	2,461,489
<b>Total net assets..... \$</b>	<b>36,041,493 \$</b>	<b>38,182,627</b>

Net assets of 33.6 million (93%) 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 \$4.3 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* is a deficit of \$1.9 million.

	<u>FY2011</u>	<u>FY2010</u>
<b>Program revenues:</b>		
Charges for services.....\$	2,128,939 \$	2,060,552
Operating grants and contributions.....	16,522,666	16,326,175
Capital grants and contributions.....	750,829	81,964
<b>General Revenues:</b>		
Real estate and personal property taxes.....	11,520,632	11,087,214
Tax liens.....	134,184	27,134
Motor vehicle and other excise taxes.....	1,089,688	957,681
Penalties and interest on taxes.....	137,823	117,940
Payments in lieu of taxes.....	46,393	46,393
Nonrestricted grants.....	1,596,135	1,711,008
Unrestricted investment income.....	45,087	67,876
Other revenues.....	17,778	13,463
<b>Total revenues.....</b>	<b>33,990,154</b>	<b>32,497,400</b>
<b>Expenses:</b>		
General Government.....	2,380,655	1,984,866
Public Safety.....	4,237,165	4,116,161
Education.....	25,930,167	24,656,861
Public Works.....	2,495,513	2,602,597
Human Services.....	400,323	512,703
Culture and Recreation.....	303,978	295,611
Interest.....	383,487	428,806
<b>Total expenses.....</b>	<b>36,131,288</b>	<b>34,597,605</b>
<b>Change in net assets..... \$</b>	<b><u>(2,141,134) \$</u></b>	<b><u>(2,100,205)</u></b>

The governmental expenses totaled \$36.1 million of which \$19.4 million (54%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$14.6 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 \$1.3 million increase in the liability for other postemployment benefits and depreciation expense exceeding principal payment on debt service by 1.0 million.

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

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

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

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



As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6 million, a decrease of \$328,000.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1.6 million, while total fund balance was \$1.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 5.5% of total general fund expenditures, while total fund balance represents 6.3% of that same amount.

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

There was a \$255,000 increase between the original and final budget. This change was primarily due to snow & ice (\$108,000), and education (\$154,000).

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

The Town's investment in capital assets as of June 30, 2011 amounts to \$40.8 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, 2011, totaled \$9 million, of which \$2.7 million is related to school construction and remodeling, \$2.5 million for the police station, \$2.1 million for the acquisition of the Hillcrest Country Club, \$1.1 million for water mains and pump station, \$200,000 for Title V septic loans and \$400,000 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.

# ***Basic Financial Statements***

# STATEMENT OF NET ASSETS

JUNE 30, 2011

		<b>Primary Government</b>
		<b>Governmental Activities</b>
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$	7,763,134
Investments.....		67,927
Receivables, net of allowance for uncollectibles:		
Real estate and personal property taxes.....		355,746
Tax liens.....		294,581
Motor vehicle excise taxes.....		160,288
Departmental and other.....		172,483
Intergovernmental.....		816,075
NONCURRENT:		
Receivables, net of allowance for uncollectibles:		
Intergovernmental.....		1,170,000
Capital assets, nondepreciable.....		4,870,740
Capital assets, net of accumulated depreciation.....		35,892,842
<b>TOTAL ASSETS.....</b>		<b>51,563,816</b>
<b>LIABILITIES</b>		
CURRENT:		
Warrants payable.....		749,548
Accrued payroll.....		1,028,485
Tax refunds payable.....		163,939
Accrued interest.....		116,015
Other liabilities.....		23,215
Capital lease obligations.....		4,772
Compensated absences.....		152,900
Bonds payable.....		1,398,821
NONCURRENT:		
Capital lease obligations.....		15,884
Compensated absences.....		269,100
Other postemployment benefits.....		4,023,061
Bonds payable.....		7,576,583
<b>TOTAL LIABILITIES.....</b>		<b>15,522,323</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt.....		33,588,394
Restricted for:		
Permanent funds:		
Expendable.....		1,326,785
Nonexpendable.....		32,519
Other purposes.....		2,988,396
Unrestricted.....		(1,894,601)
<b>TOTAL NET ASSETS.....</b>	<b>\$</b>	<b>36,041,493</b>

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

		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.....	\$ 2,380,655	\$ 339,648	\$ 583,892	\$ -	\$ (1,457,115)
Public safety.....	4,237,165	1,246,231	52,395	-	(2,938,539)
Education.....	25,930,167	487,191	15,837,314	-	(9,605,662)
Public works.....	2,495,513	26,523	-	750,829	(1,718,161)
Human services.....	400,323	4,463	22,964	-	(372,896)
Culture and recreation.....	303,978	24,883	26,101	-	(252,994)
Interest.....	383,487	-	-	-	(383,487)
Total Governmental Activities.....	\$ 36,131,288	\$ 2,128,939	\$ 16,522,666	\$ 750,829	\$ (16,728,854)

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government
	Governmental Activities
<b>Changes in net assets:</b>	
Net (expense) revenue from previous page.....	\$ <b>(16,728,854)</b>
<i>General revenues:</i>	
Real estate and personal property taxes, net of tax refunds payable.....	11,520,632
Tax liens .....	134,184
Motor vehicle and other excise taxes.....	1,089,688
Penalties and interest on taxes.....	137,823
Payments in lieu of taxes.....	46,393
Grants and contributions not restricted to specific programs.....	1,596,135
Unrestricted investment income.....	45,087
Miscellaneous.....	17,778
Total general revenues.....	14,587,720
Change in net assets.....	(2,141,134)
<i>Net Assets:</i>	
Beginning of year.....	38,182,627
End of year.....	\$ 36,041,493

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2011

			Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>	<u>General</u>			
Cash and cash equivalents.....	\$ 3,567,376	\$	4,195,758	\$ 7,763,134
Investments.....	-		67,927	67,927
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	355,746		-	355,746
Tax liens.....	294,581		-	294,581
Motor vehicle excise taxes.....	160,288		-	160,288
Departmental and other.....	31,360		141,123	172,483
Intergovernmental.....	1,719,000		267,075	1,986,075
<b>TOTAL ASSETS.....</b>	<u>\$ 6,128,351</u>	<u>\$</u>	<u>4,671,883</u>	<u>\$ 10,800,234</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 566,581	\$	182,967	\$ 749,548
Accrued payroll.....	1,028,485		-	1,028,485
Tax refunds payable.....	163,939		-	163,939
Other liabilities.....	23,215		-	23,215
Deferred revenues.....	2,521,201		288,795	2,809,996
<b>TOTAL LIABILITIES.....</b>	<u>4,303,421</u>		<u>471,762</u>	<u>4,775,183</u>
<b>FUND BALANCES:</b>				
Nonspendable.....	-		32,519	32,519
Restricted.....	-		4,167,602	4,167,602
Assigned.....	222,964		-	222,964
Unassigned.....	1,601,966		-	1,601,966
<b>TOTAL FUND BALANCES.....</b>	<u>1,824,930</u>		<u>4,200,121</u>	<u>6,025,051</u>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<u>\$ 6,128,351</u>	<u>\$</u>	<u>4,671,883</u>	<u>\$ 10,800,234</u>

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....	\$ 6,025,051
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	40,763,582
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	2,809,996
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(116,015)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Bonds payable.....	(8,975,404)
Capital lease obligations.....	(20,656)
Compensated absences.....	(422,000)
Other postemployment benefits.....	<u>(4,023,061)</u>
Net effect of reporting long-term liabilities.....	<u>(13,441,121)</u>
Net assets of governmental activities.....	<u>\$ 36,041,493</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Real estate and personal property taxes, net of tax refunds.....	\$ 11,489,232	\$ -	\$ 11,489,232
Tax liens.....	12,871	-	12,871
Motor vehicle and other excise taxes.....	1,041,501	-	1,041,501
Penalties and interest on taxes.....	137,823	-	137,823
Payments in lieu of taxes.....	46,393	-	46,393
Intergovernmental.....	14,727,881	4,522,498	19,250,379
Departmental and other.....	336,010	1,703,094	2,039,104
Contributions.....	-	18,657	18,657
Investment income.....	34,752	10,447	45,199
Miscellaneous.....	14,866	-	14,866
<b>TOTAL REVENUES.....</b>	<b>27,841,329</b>	<b>6,254,696</b>	<b>34,096,025</b>
<b>EXPENDITURES:</b>			
Current:			
General government.....	1,411,061	531,719	1,942,780
Public safety.....	2,289,565	880,554	3,170,119
Education.....	15,705,291	3,464,523	19,169,814
Public works.....	921,808	490,982	1,412,790
Human services.....	224,348	18,578	242,926
Culture and recreation.....	161,729	76,972	238,701
Pension benefits.....	3,763,077	-	3,763,077
Employee benefits.....	2,328,797	-	2,328,797
State and county charges.....	420,169	-	420,169
Debt service:			
Principal.....	1,335,142	-	1,335,142
Interest.....	399,615	-	399,615
<b>TOTAL EXPENDITURES.....</b>	<b>28,960,602</b>	<b>5,463,328</b>	<b>34,423,930</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,119,273)</b>	<b>791,368</b>	<b>(327,905)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in.....	765,103	30,506	795,609
Transfers out.....	(245,781)	(549,828)	(795,609)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>519,322</b>	<b>(519,322)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(599,951)</b>	<b>272,046</b>	<b>(327,905)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,424,881</b>	<b>3,928,075</b>	<b>6,352,956</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,824,930</b>	<b>\$ 4,200,121</b>	<b>\$ 6,025,051</b>

See notes to basic financial statements.



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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds.....	\$	(327,905)
---	----	-----------

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.....	972,390	
Depreciation expense.....	<u>(2,357,323)</u>	

Net effect of reporting capital assets.....		(1,384,933)
---	--	-------------

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..... (514,681)

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:

Capital lease principal payments.....	(20,656)	
Debt service principal payments.....	<u>1,335,142</u>	

Net effect of reporting long-term debt.....		1,314,486
---	--	-----------

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.....	62,000	
Net change in accrued interest on long-term debt.....	16,128	
Other postemployment benefits.....	<u>(1,306,229)</u>	

Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(1,228,101)</u>
---	--	--------------------

Change in net assets of governmental activities.....	\$	<u><u>(2,141,134)</u></u>
--	----	---------------------------

See notes to basic financial statements.

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

JUNE 30, 2011

	Agency Funds
<b>ASSETS</b>	
<b>CURRENT:</b>	
Cash and cash equivalents.....	\$ 264,905
Receivables, net of allowance for uncollectibles:	
Departmental and other.....	21,328
<b>TOTAL ASSETS.....</b>	<b>286,233</b>
<b>LIABILITIES</b>	
Warrants payable.....	1,651
Liabilities due depositors.....	70,224
Other liabilities.....	214,358
<b>TOTAL LIABILITIES.....</b>	<b>\$ 286,233</b>

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 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

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

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

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

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

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

***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered 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.

***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)*

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

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

order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Capital Lease Obligations

The Town leases various assets under capital lease agreements. In the government-wide and proprietary funds financial statements, capital leases and the related lease obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets.

#### N. 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.

#### O. 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).

#### P. 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.

#### Q. 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.

R. 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 event of a bank failure, the Town's deposits may not be returned to it. At fiscal year-end, the carrying amount of deposits totaled \$7,498,068 and the bank balance totaled \$7,666,639. Of the bank balance, \$905,766 was covered by Federal Depository Insurance and \$6,760,873 was covered by the Depositors Insurance Fund.

Investments

As of June 30, 2011, the Town had the following investments:

<u>Other Investments</u>	
Mutual Funds.....	67,927
MMDT.....	<u>529,971</u>
Total Investments.....	<u>\$ 597,898</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, 2011, 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.....	\$ 355,746	\$ -	\$ 355,746
Tax liens.....	294,581	-	294,581
Motor vehicle and other excise taxes.....	184,288	(24,000)	160,288
Departmental and other.....	716,811	(523,000)	193,811
Intergovernmental.....	1,986,075	-	1,986,075
Total.....	<u>\$ 3,537,501</u>	<u>\$ (547,000)</u>	<u>\$ 2,990,501</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.....	\$ 315,972	\$ -	\$ 315,972
Tax liens.....	294,581	-	294,581
Motor vehicle and other excise taxes.....	160,288	-	160,288
Departmental and other.....	31,360	-	31,360
Intergovernmental.....	1,719,000	288,795	2,007,795
Total.....	<u>\$ 2,521,201</u>	<u>\$ 288,795</u>	<u>\$ 2,809,996</u>

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,870,740	\$ -	\$ -	\$ 4,870,740
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	25,534,017	-	-	25,534,017
Machinery and equipment.....	3,824,595	245,646	(29,734)	4,040,507
Infrastructure.....	63,179,002	726,744	(146,156)	63,759,590
Total capital assets being depreciated.....	92,537,614	972,390	(175,890)	93,334,114
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(13,523,203)	(811,252)	-	(14,334,455)
Machinery and equipment.....	(2,724,420)	(262,327)	29,734	(2,957,013)
Infrastructure.....	(39,012,216)	(1,283,744)	146,156	(40,149,804)
Total accumulated depreciation.....	(55,259,839)	(2,357,323)	175,890	(57,441,272)
Total capital assets being depreciated, net.....	37,277,775	(1,384,933)	-	35,892,842
Total governmental activities capital assets, net.....	\$ 42,148,515	\$ (1,384,933)	\$ -	\$ 40,763,582

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

<b>Governmental Activities:</b>	
General Government.....	\$ 22,706
Public Safety.....	267,327
Education.....	619,206
Public Works.....	1,346,632
Human Services.....	88,360
Culture and recreation.....	13,092
Total depreciation expense.....	\$ 2,357,323

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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

Operating Transfers Out:	Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ 215,275	\$ 30,506	\$ 245,781
Nonmajor Governmental Funds.....	<u>549,828</u>	<u>-</u>	<u>549,828</u>
Total.....	<u>\$ 765,103</u>	<u>\$ 30,506</u>	<u>\$ 795,609</u>

**NOTE 6 – CAPITAL LEASE OBLIGATION**

The Town has entered into a lease agreement for the purchase of school equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payment as of the inception date. Assets acquired through capital lease are as follows:

Asset:	Governmental Activities
Machinery and equipment.....	\$ 26,399
Less: accumulated depreciation.....	<u>(2,640)</u>
Total.....	<u>\$ 23,759</u>

The following is a schedule of the future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments, as of June 30, 2011.

Fiscal Years Ending June 30	Governmental Activities
2012.....	\$ 5,863
2013.....	5,864
2014.....	5,864
2015.....	<u>5,863</u>
Total minimum lease payments.....	<u>23,454</u>
Less: amounts representing interest.....	<u>(2,798)</u>
Present value of minimum lease payments.....	<u>\$ 20,656</u>

**NOTE 7 – 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, 2011, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2010	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2011
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.....				<u>\$ 176,600</u>	<u>\$ -</u>	<u>\$ 176,600</u>	<u>\$ -</u>

**NOTE 8 – 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, 2011, and the debt service requirements for the governmental funds are as follows:

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Police Station Land Acquisition.....	3.99	\$ 225,000	\$ -	\$ 25,000	\$ 200,000
Police Station.....	4.13	2,425,000	-	175,000	2,250,000
Hillcrest Country Club Land Acquisition.....	4.13	2,210,000	-	160,000	2,050,000
School Repairs and Remodeling.....	3.68	100,000	-	20,000	80,000
New High School.....	2.9	3,465,000	-	825,000	2,640,000
Installation of Water Mains.....	3.74	1,100,000	-	100,000	1,000,000
Installation of Water Mains and Pump Station....	4.13	140,000	-	10,000	130,000
MWPAT Title V Septic Repair Loan - Round 1....	0.0	100,435	-	10,134	90,301
MWPAT Title V Septic Repair Loan - Round 2....	0.0	44,048	-	3,397	40,651
MWPAT Title V Septic Repair Loan - Round 3....	0.0	112,384	-	6,611	105,773
Town Hall Repairs and Memorial School Roof....	4.2	388,679	-	-	388,679
Total governmental bonds payable.....		<u>\$ 10,310,546</u>	<u>\$ -</u>	<u>\$ 1,335,142</u>	<u>\$ 8,975,404</u>

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

Year	Principal	Interest	Total
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.....	\$ 8,975,404	\$ 1,884,589	\$ 10,859,993

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 2011, approximately \$622,000 of such assistance was received. Approximately 1,867,000 will be received in future fiscal years. Of this amount, approximately \$149,000 represents reimbursement of long-term interest costs, and approximately \$1,719,000 represents reimbursement of approved construction costs. Accordingly, a \$1,719,000 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 \$34,915. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$236,725. 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 2011 interest subsidy totaled \$7,392.

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

Purpose	Amount
Repairs, Replacement, Upgrade of Septic Systems.....	\$ 303,191
Land Acquisition - Pleasant Street (Hillcrest Country Club).....	100,000
2008 Ice Storm.....	250,000
Repairs of School Roof/Boiler.....	1,365,116
Total.....	\$ 2,018,307



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, 2011, 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.....	\$ 10,310,546	\$ -	\$ (1,335,142)	\$ 8,975,404	\$ 1,398,821
Other postemployment benefits.....	2,716,832	1,991,858	(685,629)	4,023,061	-
Compensated Absences.....	484,000	118,000	(180,000)	422,000	152,900
Capital Lease.....	-	26,399	(5,743)	20,656	4,772
Total.....	<u>\$ 13,511,378</u>	<u>\$ 2,136,257</u>	<u>\$ (2,206,514)</u>	<u>\$ 13,441,121</u>	<u>\$ 1,556,493</u>

**NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

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

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end the balance of the General Stabilization Fund is \$537,000 and is reported as unassigned fund balance within the General Fund.

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

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

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making.

- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balances of the general fund that is not constrained for any particular purpose.

GOVERNMENTAL FUNDS			
	General	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Permanent fund principal.....	\$ -	\$ 32,519	\$ 32,519
Restricted for:			
School lunch.....	-	16,753	16,753
School revolving funds.....	-	2,682,848	2,682,848
Town capital projects.....	-	141,216	141,216
Town library trustees.....	-	578,088	578,088
Expendable permanent funds.....	-	748,697	748,697
Assigned to:			
General government.....	133,002	-	133,002
Public safety.....	3,825	-	3,825
Education.....	79,762	-	79,762
Public works.....	1,059	-	1,059
Employee benefits.....	5,316	-	5,316
Unassigned.....	1,601,966	-	1,601,966
TOTAL FUND BALANCES (DEFICIT).....	\$ 1,824,930	\$ 4,200,121	\$ 6,025,051

#### NOTE 10 - STABILIZATION FUND

At June 30, 2011, \$537,000 has been set aside in a stabilization fund, which is classified as part of the general 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 \$213,000 during fiscal 2011 due to a budgeted transfer to the general fund.

#### NOTE 11 – 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 12 - 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 \$3,054,000 for the fiscal year ended June 30, 2011, 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, 2011, 2010 and 2009 were approximately \$709,000, \$656,000, and \$615,000 respectively, which equaled its required contribution for each fiscal year.

#### **NOTE 13 – 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 2011, the Town contributed \$685,000 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.....	\$ 1,986,482
Interest on net OPEB obligation.....	117,459
Adjustments to annual required contribution.....	<u>(112,083)</u>
Annual OPEB cost (expense).....	1,991,858
Contributions made.....	<u>(685,629)</u>
Increase in net OPEB obligation.....	1,306,229
Net OPEB obligation--beginning of year.....	<u>2,716,832</u>
Net OPEB obligation--end of year.....	<u>\$ 4,023,061</u>

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

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contributions Made</u>	<u>Percentage Contributed</u>
6/30/2011	\$ 1,986,482	685,629	\$ 35%
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, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$23,145,297, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$15,247,000, and the ratio of the UAAL to the covered payroll was 151.8 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, 2011, 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 1.75% to 9.0% initially, graded to 5% to 6% over 10 years. The

UAAL is being amortized over a closed 28 year period, with amortization payments increasing at 3.25% per year. The remaining amortization period at June 30, 2011 is 28 years.

#### NOTE 14 - 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

#### NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

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

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

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financials Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, an amendment of GASB *Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB *Statement No. 27*, which is required to be implemented in fiscal year 2015.

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

## ***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 11,556,758	\$ 11,556,758	\$ 11,556,758
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	985,000	985,000	985,000
Penalties and interest on taxes.....	-	117,000	117,000	117,000
Payments in lieu of taxes.....	-	-	-	-
Intergovernmental.....	-	11,404,143	11,404,143	11,404,143
Departmental and other.....	-	300,543	300,543	300,543
Investment income.....	-	50,000	50,000	50,000
Miscellaneous.....	-	-	-	-
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>24,413,444</b>	<b>24,413,444</b>	<b>24,413,444</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	143,568	1,480,380	1,623,948	1,658,218
Public safety.....	2,216	2,389,168	2,391,384	2,401,130
Education.....	883,260	15,662,949	16,546,209	16,700,085
Public works.....	-	816,096	816,096	923,789
Human services.....	-	254,903	254,903	254,903
Culture and recreation.....	-	163,048	163,048	167,398
Pension benefits.....	-	709,077	709,077	709,077
Employee benefits.....	-	2,571,140	2,571,140	2,571,140
State and county charges.....	-	401,251	401,251	401,251
Debt service:				
Principal.....	-	1,389,579	1,389,579	1,335,142
Interest.....	-	395,906	395,906	395,906
<b>TOTAL EXPENDITURES.....</b>	<b>1,029,044</b>	<b>26,233,497</b>	<b>27,262,541</b>	<b>27,518,039</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,029,044)</b>	<b>(1,820,053)</b>	<b>(2,849,097)</b>	<b>(3,104,595)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	711,484	711,484	765,103
Transfers out.....	-	(30,506)	(30,506)	(30,506)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>680,978</b>	<b>680,978</b>	<b>734,597</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,029,044)</b>	<b>(1,139,075)</b>	<b>(2,168,119)</b>	<b>(2,369,998)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>2,607,929</b>	<b>2,607,929</b>	<b>2,607,929</b>	<b>2,607,929</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 1,578,885</b>	<b>\$ 1,468,854</b>	<b>\$ 439,810</b>	<b>\$ 237,931</b>

See notes to required supplementary information.



	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Budget
\$	11,458,678	\$ -	\$ (98,080)
	12,871	-	12,871
	1,041,501	-	56,501
	137,823	-	20,823
	46,393	-	46,393
	11,666,489	-	262,346
	336,010	-	35,467
	32,418	-	(17,582)
	14,866	-	14,866
	24,747,049	-	333,605
	1,409,824	133,002	115,392
	2,289,565	3,825	107,740
	15,610,427	954,256	135,402
	921,808	1,059	922
	224,348	-	30,555
	161,729	-	5,669
	709,077	-	-
	2,328,797	5,316	237,027
	420,169	-	(18,918)
	1,335,142	-	-
	392,223	-	3,683
	25,803,109	1,097,458	617,472
	(1,056,060)	(1,097,458)	951,077
	765,103	-	-
	(30,506)	-	-
	734,597	-	-
	(321,463)	(1,097,458)	951,077
	2,607,929	-	-
\$	2,286,466	\$ (1,097,458)	\$ 951,077

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

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

See notes to required supplementary information.

**Worcester 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%	656,504	2.28%
2011	31,200,000	31,200,000	100%	709,077	2.27%

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, 2011

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)
1/1/2011	\$ -	\$ 23,145,297	\$ 23,145,297	0%	\$ 15,247,000	151.8%
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
6/30/2011	\$ 1,986,482	\$ 685,629	35%
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, 2011

---

Actuarial Methods:

Valuation date	January 1, 2011
Actuarial cost method	Projected credit unit
Amortization method	28 year level assuming a 3.25% annual increase
Remaining amortization period	28 years as of June 30, 2011

Actuarial Assumptions:

Investment rate of return	4.25%, pas-as-you-gp scenario
Medical/drug cost trend rate	1.75% to 9.0% initially, then decreasing to 5% - 6% within 10 years

Plan Membership:

Current retirees, beneficiaries, and dependents	206
Current active members	<u>296</u>
Total	<u><u>502</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 2011 approved budget authorized approximately \$26,264,000 million in appropriations and other amounts to be raised and approximately \$1,029,000 million in encumbrances and continuing appropriations carried over from previous fiscal years. Supplemental appropriations of approximately \$255,000 were approved during fiscal year 2011.

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, 2011, is presented below:

Net change in fund balance, budgetary basis.....	\$	(321,463)
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		(212,941)
<u>Basis of accounting differences:</u>		
Net change in 60 day receipts.....		39,775
Net change in tax refunds payable.....		(9,221)
Net change in recording teachers summer pay.....		(94,864)
Net change in revenue accruals.....		(1,237)
Increase in revenues due to on-behalf payments.....		3,054,000
Increase in expenditures due to on-behalf payments....		<u>(3,054,000)</u>
Net change in fund balances, GAAP basis.....	\$	<u><u>(599,951)</u></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, 2010  
 Actuarial Cost Method..... Entry Age Normal Cost Method  
 Amortization Method..... Increasing at 4.00% per year, level dollar for ERI liability for certain unity  
 Remaining Amortization Period..... 29 years remaining as of July 1, 2010  
 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..... 8.00%  
 Projected salary increases..... 4.00%  
 Cost of living adjustments..... 3.0% of the lesser of the pension amount and \$14,000 per year.

Plan Membership:

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

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare 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.