

TOWN OF WINCHENDON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2009

TOWN OF WINCHENDON, MASSACHUSETTS

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Winchendon, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Winchendon, Massachusetts, (the "Town") as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Town as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the 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 a report dated February 11, 2010, on our consideration of the Town's 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 considered in assessing the results of our audit.

The Management's discussion and analysis on pages 3-10, funding and contribution progress for pension and other post employment benefits on page 43, and budgetary comparison on pages 44-45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Roselli Clark & Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts
February 11, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found on pages 11 - 45.

Financial Highlights

- A restatement of beginning net assets balance was required as a result of an omission in the prior period financial statements. The net restatement caused beginning balances of the governmental net assets to be increased by approximately \$3.5 million. More specifically, the net assets were increased to recognize receivables from the Massachusetts School Building Authority (\$3.7 million) and Massachusetts Water Abatement Trust (\$0.2 million); and reduced to reflect a reclassification of balances to the Private Purpose Trust Fund (\$0.4 million).
- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$35.4 million (*total net assets*). This was down \$0.5 million from the preceding year, and caused by a reduction of approximately \$0.3 million in *governmental type activities* and a reduction of \$0.2 million in *business type activities*. The reduction in governmental type activities is directly caused by the adoption of the provisions of GASB 45, *Accounting For Post Employment Benefits*. The implementation of this pronouncement resulted in a reduction to unrestricted net assets of approximately \$1.7 million which offset otherwise favorable operating results.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund surplus of approximately \$6.8 million. This was approximately \$0.7 million higher than the prior year. This was primarily due to the receipt of an intergovernmental grant which completed the funding for the 19th Hill land purchase in the amount of \$0.6 million.
- The accounting treatment for certain items vary greatly between the Statement of Net Assets and the Governmental Fund Balance Sheet thus the significant differences in equity and fund balance amounts between the two statements noted above. The reconciliation has been provided on page 15 of the accompanying basic financial statements to assist the reader to understand these differences.
- The Town's total debt is approximately \$19.2 million. The total long-term debt decreased by approximately \$2.1 million due to regularly scheduled maturities. There were no new issuances of debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's 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 of the Town 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 of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education, economic development, debt service, fringe benefits and culture and recreation. The business-type activities of the Town include water and sewer enterprise funds. The government-wide financial statements can be found on pages 11-12 of this report.

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Fund – *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 financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are provided on pages 15-16 to facilitate this comparison.

The Town maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road drainage fund and stabilization fund. Data from the other three governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 13-14 of this report.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget on page 44.

Proprietary Funds – The Town maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer enterprise activities. Proprietary funds provide the same type of information as the government-wide financial statements,

only in more detail. The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 20 - 21 of this report.

Notes to the 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. The notes to the financial statements can be found on pages 22-42 of this report.

Government-wide Financial Analysis (see Exhibit I and Exhibit II on pages 9 and 10)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case, the Town's assets exceeded liabilities by approximately \$35.4 million at the close of the most recent fiscal year.

By far the largest portion (approximately 68.1%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) 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 Town's investment in its capital assets is reported net of 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 Town's net assets (approximately 19.1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, (less than 12.8%), may be used to meet the government's ongoing obligations.

The government's total net assets decreased by approximately \$0.5 million. The decrease caused by a reduction of approximately \$0.3 million in *governmental type activities* and a reduction of \$0.2 million in *business type activities*. The reduction in governmental type activities is directly caused by the adoption of the provisions of GASB 45, *Accounting For Post Employment Benefits*. The implementation of this pronouncement resulted in a reduction to unrestricted net assets of approximately \$1.7 million which offset otherwise favorable operating results.

Governmental Activities – During 2009 Town property taxes made up approximately 27.2% of total revenues, down from 28.3% in the comparable prior year period. Operating and capital grants made up 51.5% of total revenues, up from 48.3% in the comparable prior year period. No other revenues were greater than 10% of total revenues in 2009 or 2008. The largest expense by far is education which made up 61.0% of total expenses, down from 66.0% in the prior year, the actual amount increased, but the allocation decrease due to the implementation of GASB 45 causing overall expenses to be larger than the prior year. Pension and fringe benefits made up 16.5% of total expenses, up from 8.8% in the prior year. The primary reason for the increase was due to the implementation of GASB 45. No other expense types were greater than 10% of total expenses.

Business-type Activities – Major revenue sources consist of revenue from user charges which represented approximately 98.7% of total revenues. The remaining revenue represents amounts received from betterments. Water and sewer expenses represented 94.6% of total business type expenses. The remaining expenses represented debt service costs.

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund surplus of approximately \$6.8 million. This was approximately \$0.7 million higher than the prior year. This was primarily due to the receipt of an intergovernmental grant which completed the funding for the 19th Hill land purchase in the amount of \$0.6 million.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was approximately \$2.1 million or 2.1% of total general fund expenditures, while total fund balance reached approximately \$2.6 million or 3.8% of total general fund expenditures.

The fund balance of the Town's general fund decreased from the previous year by approximately \$0.9 million during the current fiscal year. This was due to the Town transferring \$0.6 million to the 19th Hill Land Purchase fund to complete the funding for the purchase of this land. The remainder is due to a budgeted use of overlay surplus and free cash.

The stabilization fund has a total fund balance of approximately \$1.8 million. These are unencumbered accumulated financial resources that are subject to appropriation as directed by the Town's legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise during the year.

The infrastructure investment fund has a total fund balance of approximately \$1.2 million. This is used to account for certain accumulated financial resources that are held for the specific purpose of funding future debt service that was issued to fund the landfill cap and post-closure monitoring costs.

Nonmajor governmental funds comprise the remaining governmental funds and consist of funds like capital projects, grant and revolving accounts, trust funds, recreation funds and other funds where revenues are primarily derived from user charges and grants. At June 30, 2009, the fund balance in the nonmajor governmental funds was consistent with the prior year at \$2.9 million.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Fiduciary Funds – The Town reports funds it possesses that are legally held in trust for use in scholarships and the poor as private purpose funds and deposits with the Town's planning board as agency funds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than 1%. Detail may be reviewed on page 44 of this report.

Capital Asset and Debt Administration

Capital Assets – As of June 30, 2009, the Town's investment in capital assets for its governmental activities approximate \$21.9 million and for its business type activities approximate \$16.9 million. Governmental fixed assets decreased by approximately \$0.6 million as depreciation exceeded additions, and business type fixed assets decreased by approximately \$0.3 million as depreciation exceeded additions.

The Town has undergone significant capital improvements over the past several years. These include major additions to its educational facilities, roads, streets, highway, and its water and sewer distribution systems. A significant amount of these improvements were funded with reimbursements from the Commonwealth of Massachusetts.

Additional information on the Town capital assets can be found in note III.D. on pages 32 and 33 of this report.

Long-term Debt – The Town's total debt is approximately \$19.2 million. The total long-term debt decreased by approximately \$2.1 million due to regularly scheduled maturities. There were no new issuances of debt.

The Town will receive reimbursements for a portion of any principal pay back related to debt issued for school construction. The remaining expected reimbursement of principal is approximately \$3.6 million and will be received ratably over the next several years. The Town will receive reimbursements for a portion of any principal payback of debt issued through agreements with the Massachusetts Water Pollution Abatement Trust. The Town expects to receive approximately \$3.0 million of principal and approximately \$2.9 million of interest in aggregate over the next 15 years.

The Town maintained an "A" rating as set by Standard and Poor for general obligation debt.

State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit." The Town's legal debt margin as of June 30, 2009 was approximately \$38.0 million based on an equalized valuation of approximately \$786.0 million.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town's debt can be found in note III.E and F on pages 35 -37 of this report.

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates have been increasing steadily over the past 12 - 18 months, and this trend is anticipated for rates to remain consistent or increase into calendar 2010. However, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2010 are approximately 91.5% of the entire levy. The Town does rely to a certain extent on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy.
- Consistent with both State and National indices, the Town's housing market is in a downward trend. Housing prices are approximately 25% lower than their 2005 peaks. As the economy rebounds, the Town expects its housing market to participate ratably in the rebound. However, the extent, timing or certainty of any housing rebound can not be reasonably estimated at this time.
- During 2009, the Town like many other communities was faced with many consequences of the adverse economy as local receipts and investment income were lower than expected. Compounding this issue was the cuts to State Aid in the middle of the year with much larger cuts to the expected amount for fiscal 2010.
- The Town responded well to reductions in State Aid and other local non-property tax receipts in fiscal years 2009 and 2010 and showed the ability to strategically lower appropriations in ways that preserved local service levels. However, possible revenue deficits, including a threat by the Commonwealth to cut State Aid by 10-15%, inflationary pressures and other collateral challenges will require the Town to make additional budget cuts in order to balance its' budget for fiscal year 2011. The proposed fiscal year 2011 annual budget incorporates a program of expenditure reductions and is in balance reflecting lower appropriations to meet realistic revenue estimates.
- The Town set its tax rate for 2010 on December 11, 2009 and accounted for all the above in compiling the necessary data.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Accountant, Town Hall, 109 Front Street, Winchendon, Massachusetts, 01475.

Exhibit I
Government-Wide Financial Analysis
Net Assets

	<u>Governmental activities</u>		<u>Business activities</u>		<u>Total</u>	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
		Restated				Restated
<u>Assets</u>						
Current and other assets	\$ 14,777	\$ 16,704	\$ 6,826	\$ 7,203	\$ 21,603	\$ 23,907
Capital assets, net	21,881	22,473	16,956	17,240	38,837	39,713
Total assets	36,658	39,177	23,782	24,443	60,440	63,620
<u>Liabilities</u>						
Long-term liabilities	8,395	8,416	11,489	12,495	19,884	20,911
Other liabilities	3,694	5,861	1,181	859	4,875	6,720
Total liabilities	12,089	14,277	12,670	13,354	24,759	27,631
<u>Net Assets</u>						
Invested in capital assets, net of related debt	14,890	17,106	9,417	8,665	24,308	25,771
Restricted	6,807	5,487	-	-	6,807	5,487
Unrestricted	2,872	2,307	1,694	2,424	4,566	4,731
Net Assets	\$ 24,568	\$ 24,900	\$ 11,112	\$ 11,089	\$ 35,680	\$ 35,989

Exhibit II
Government-Wide Financial Analysis
Changes in Net Assets

	<u>Governmental activities</u>		<u>Business activities</u>		<u>Total</u>	
	June 30, 2009	June 30, 2008 Restated	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008 Restated
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 2,992	\$ 1,505	\$ 1,474	\$ 1,199	\$ 4,466	\$ 2,704
Operating grants and contributions	17,571	15,523	-	-	17,571	15,523
Capital grants and contributions	1,054	1,997	-	-	1,054	1,997
General revenues:						
Property taxes	9,308	9,090	-	-	9,308	9,090
Intergovernmental	1,974	2,158	-	-	1,974	2,158
Other	1,216	1,846	18	-	1,234	1,846
Total revenues	34,115	32,119	1,492	1,199	35,606	33,318
<u>Expenses</u>						
General government	1,692	2,229	-	-	1,692	2,229
Public safety	2,544	2,149	-	-	2,544	2,149
Education	20,896	19,820	-	-	20,896	19,820
Public works	1,514	1,234	-	-	1,514	1,234
Health and human services	482	295	-	-	482	295
Culture and recreation	205	234	-	-	205	234
Community development	128	-	-	-	128	-
Pension and other fringe benefits	5,659	2,653	-	-	5,659	2,653
State and county	800	917	-	-	800	917
Debt service	291	480	95	-	386	480
Water	-	-	607	529	607	529
Sewer	-	-	1,000	751	1,000	751
Total expenses	34,212	30,011	1,703	1,280	35,915	31,291
Increase (deficiency) in net assets before transfers	(97)	2,108	(211)	(81)	(308)	2,027
Transfers	(234)	(227)	234	227	-	-
Increase (decrease) in net assets	(332)	1,881	23	146	(308)	2,027
Net assets, beginning of year (restated)	24,900	23,019	11,089	10,943	35,989	33,962
Net assets, end of year (restated)	<u>\$ 24,568</u>	<u>\$ 24,900</u>	<u>\$ 11,112</u>	<u>\$ 11,089</u>	<u>\$ 35,681</u>	<u>\$ 35,989</u>

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 3,449,586	\$ 1,019,138	\$ 4,468,724
Investments	3,576,061		3,576,061
Receivables, net of allowance for uncollectibles:			
Property taxes	786,203	-	786,203
User fees	-	942,024	942,024
Betterments	-	60,097	60,097
Departmental and other	415,753	-	415,753
Intergovernmental	979,462	134,038	1,113,500
Other assets	2,100	50,194	52,294
Total Current Assets	9,209,165	2,205,491	11,414,656
NONCURRENT:			
Restricted:			
Cash	499,404	-	499,404
Investments	1,062,983	-	1,062,983
Deposits held by third party	438,200		438,200
Receivables, net of allowance for uncollectibles:			
Property taxes	990,677	-	990,677
Betterments	-	1,918,915	1,918,915
Intergovernmental	2,576,816	2,701,366	5,278,182
Land	1,982,304	26,735	2,009,039
Depreciable capital assets, net of accumulated depreciation	19,898,209	16,929,274	36,827,483
TOTAL ASSETS	36,657,758	23,781,781	60,439,539
LIABILITIES			
CURRENT:			
Warrants and accounts payable	770,411	111,665	882,076
Incurred but not reported health claims	379,527	-	379,527
Other liabilities	91,218	-	91,218
Notes payable	339,480	290,000	629,480
Current portion of bond and note indebtedness	1,877,186	779,257	2,656,443
Current portion of capital lease obligations	91,213	-	91,213
Current portion of landfill monitoring	27,000	-	27,000
Current portion of compensated absences	118,305	-	118,305
Total Current Liabilities	3,694,340	1,180,922	4,875,262
NONCURRENT:			
Long-term portion of bond and note indebtedness	5,021,751	11,489,019	16,510,770
Long-term portion of landfill monitoring	567,000	-	567,000
Long-term portion of compensated absences	1,064,746	-	1,064,746
Other postemployment benefits	1,741,457	-	1,741,457
TOTAL LIABILITIES	12,089,294	12,669,941	24,759,235
NET ASSETS			
Invested in capital assets, net of related debt	14,890,363	9,417,360	24,307,723
Restricted for:			
Capital projects	63,515	-	63,515
Health insurance trust	948,751	-	948,751
Perpetual funds:			
Expendable	306,859	-	306,859
Permanent	1,254,318	-	1,254,318
Other purposes	4,233,110	-	4,233,110
Unrestricted	2,871,548	1,694,480	4,566,028
NET ASSETS	\$ 24,568,464	\$ 11,111,840	\$ 35,680,304

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities:						
General government	\$ 1,691,960	\$ 105,599	\$ 112,319	\$ 539,250	\$ (934,792)	\$ (934,792)
Public safety	2,544,414	494,234	601,589	-	(1,448,591)	(1,448,591)
Education	20,895,952	843,821	14,097,224	-	(5,954,907)	(5,954,907)
Public works	1,514,149	208,685	78,695	448,083	(778,686)	(778,686)
Health and human services	481,947	48,956	252,296	-	(180,695)	(180,695)
Culture and recreation	205,428	4,631	72,967	-	(127,830)	(127,830)
Community development	128,270	958	-	66,700	(60,612)	(60,612)
State and county charges	800,028	-	-	-	(800,028)	(800,028)
Pension benefits and fringes	5,659,427	1,284,760	2,004,548	-	(2,370,119)	(2,370,119)
Debt service	290,512	-	351,827	-	61,315	61,315
Total Governmental Activities	34,212,087	2,991,644	17,571,465	1,054,033	(12,594,945)	(12,594,945)
Business-Type Activities:						
Water	607,421	747,501	-	-	140,080	140,080
Sewer	999,902	725,586	-	-	(274,316)	(274,316)
Debt service	95,188	17,619	-	-	(77,569)	(77,569)
Total Primary Government	\$ 35,914,598	\$ 4,482,350	\$ 17,571,465	\$ 1,054,033	\$ (12,594,945)	(12,806,750)
General Revenues:						
Real and personal property taxes				9,308,054	-	9,308,054
Intergovernmental				1,973,510	-	1,973,510
Motor vehicle and other excise				844,858	-	844,858
Penalties and interest on taxes				165,093	-	165,093
Investment income				206,039	-	206,039
Transfers (net)				(234,166)	234,166	-
Total general revenues and transfers				12,263,388	234,166	12,497,554
Change in Net Assets				(331,557)	22,361	(309,196)
Net Assets:						
Beginning of year (restated - see Footnote VII)				24,900,021	11,089,479	35,989,500
End of year				\$ 24,568,464	\$ 11,111,840	\$ 35,680,304

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	General	Stabilization	Infrastructure Investment	19th Hill Land Purchase	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and short-term investments	\$ 1,675,973	\$ -	\$ -	\$ -	\$ 1,503,471	\$ 3,179,444
Investments	-	1,761,373	1,194,752	-	-	2,956,125
Receivables, net of allowance for uncollectibles:						
Property taxes	786,203	-	-	-	-	786,203
Other	1,347,931	-	-	-	58,499	1,406,430
Intergovernmental	3,299,424	-	-	-	256,854	3,556,278
Other assets	2,100	-	-	-	-	2,100
Cash - restricted	-	-	-	-	499,404	499,404
Investments - restricted	-	-	-	-	1,062,983	1,062,983
Total Assets	\$ 7,111,631	\$ 1,761,373	\$ 1,194,752	\$ -	\$ 3,381,211	\$ 13,448,967
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants and accounts payable	\$ 688,856	\$ -	\$ -	\$ -	\$ 81,555	\$ 770,411
Deferred revenues	5,378,012	-	-	-	58,499	5,436,511
Other liabilities	91,218	-	-	-	-	91,218
Bond anticipation notes payable	-	-	-	-	339,480	339,480
Total Liabilities	6,158,086	-	-	-	479,534	6,637,620
FUND BALANCES:						
Reserved for:						
Encumbrances	203,098	-	-	-	-	203,098
Expenditures	225,015	-	-	-	-	225,015
Stabilization	-	1,761,373	-	-	-	1,761,373
Infrastructure investment	-	-	1,194,752	-	-	1,194,752
Perpetual permanent funds	-	-	-	-	306,859	306,859
Unreserved for:						
Undesignated, reported in:						
General fund	525,432	-	-	-	-	525,432
Special revenue funds	-	-	-	-	1,276,985	1,276,985
Capital projects funds	-	-	-	-	63,515	63,515
Permanent funds	-	-	-	-	1,254,318	1,254,318
Total Fund Balances	953,545	1,761,373	1,194,752	-	2,901,677	6,811,347
Total Liabilities and Fund Balances	\$ 7,111,631	\$ 1,761,373	\$ 1,194,752	\$ -	\$ 3,381,211	\$ 13,448,967

The notes to the financial statements are an integral part of this statement.

**TOWN OF WINCHENDON, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009**

	General	Stabilization	Infrastructure Investment	19th Hill Land Purchase	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Real estate and personal property taxes, net	\$ 9,293,715	\$ -	\$ -	\$ -	\$ -	\$ 9,293,715
Intergovernmental	14,796,916	-	-	600,000	4,612,653	20,009,569
Motor vehicle and other excises	890,951	-	-	-	-	890,951
License and permits	116,643	-	-	-	-	116,643
Departmental and other revenue	893,688	-	-	-	597,032	1,490,720
Penalties and interest on taxes	165,093	-	-	-	-	165,093
Fines and forfeitures	22,577	-	-	-	-	22,577
Investment income	30,734	55,903	40,447	-	61,368	188,452
Contributions and donations	-	-	-	-	1,232,295	1,232,295
Total Revenues	26,210,317	55,903	40,447	600,000	6,503,348	33,410,015
OTHER FINANCING SOURCES						
Transfers in	-	54,832	-	600,000	107,500	762,332
Total Other Financing Sources	-	54,832	-	600,000	107,500	762,332
Total Revenues and Other Financing Sources	26,210,317	110,735	40,447	1,200,000	6,610,848	34,172,347
EXPENDITURES						
General government	1,381,951	-	-	-	166,319	1,548,270
Public safety	1,940,558	-	-	-	584,114	2,524,672
Education	15,800,009	-	-	-	4,460,115	20,260,124
Public works	1,252,954	-	-	-	535,726	1,788,680
Health and human services	392,510	-	-	-	65,857	458,367
Culture and recreation	152,845	-	-	-	121,499	274,344
Community development	-	-	-	-	128,270	128,270
State and county tax assessments	800,028	-	-	-	-	800,028
Pensions and other fringes	727,795	-	-	-	-	727,795
Debt service	2,142,648	-	-	-	125,358	2,268,006
Total Expenditures	24,591,298	-	-	-	6,187,258	30,778,556
OTHER FINANCING USES						
Transfers out	2,496,523	7,889	72,917	-	104,142	2,681,471
Total Expenditures and Other Financing Uses	27,087,821	7,889	72,917	-	6,291,400	33,460,027
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES						
	(877,504)	102,846	(32,470)	1,200,000	319,448	712,320
FUND BALANCES, July 1, 2008 (restated, see Footnote VII)						
	1,831,049	1,658,527	1,227,222	(1,200,000)	2,582,229	6,099,027
FUND BALANCES, June 30, 2009	\$ 953,545	\$ 1,761,373	\$ 1,194,752	\$ -	\$ 2,901,677	\$ 6,811,347

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

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

JUNE 30, 2009

Total Governmental Fund Balances	\$ 6,811,347
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,880,513
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Assets and liabilities of the internal service funds are included in the statement of net assets, but are not reported in the government funds.	948,751
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Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	5,436,511
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:

Bonds and notes payable	(6,898,937)
Capital lease obligations	(91,213)
Landfill monitoring	(594,000)
Compensated absences	(1,183,051)
Other post-employment benefits	(1,741,457)

Net Assets of Governmental Activities	<u>\$ 24,568,464</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 712,320**

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 outlays amounted to \$686,042 and depreciation expense totaled \$1,278,828. The net amount is reflected here as a reconciling item. (592,786)

In the Statement of Activities, Internal Service Funds established to administer the Town's health insurance costs are included within the activity, whereas these activities are not presented in the Statement of Revenues, Expenditures and Changes in Fund Balances. 142,678

The issuance of long-term debt (e.g. bonds, notes 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 has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount represents the regular scheduled maturities of debt. There were no proceeds from debt issuances during the year. 1,982,074

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 differ between the two statements. The amount presented represents the difference in deferred revenue. (636,524)

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This represents the difference between the accruals between this year and the prior year. 97,181

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:

Landfill monitoring	27,000
Compensated absences	(322,043)
Other post-employment benefits	(1,741,457)

Change in Net Assets of Governmental Activities **\$ (331,557)**

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Business-type Activities			Governmental Activities
	Enterprise Funds			Internal Service Fund - Health Claims
	Water	Sewer	Totals	
ASSETS				
CURRENT:				
Cash and cash equivalents	\$ 734,203	\$ 284,935	\$ 1,019,138	\$ 270,142
Investments	-	-	-	619,936
Receivables, net of allowance for uncollectibles:				-
User charges	461,492	480,532	942,024	-
Betterments	-	60,097	60,097	-
Intergovernmental	35,811	98,227	134,038	-
Other assets	50,194	-	50,194	-
Total Current Assets	1,281,700	923,791	2,205,491	890,078
NONCURRENT:				
Restricted:				
Working deposit held by third party	-	-	-	438,200
Receivables, net of allowance for uncollectibles:				-
Betterments	-	1,918,915	1,918,915	-
Intergovernmental	463,910	2,237,456	2,701,366	-
Land	16,385	10,350	26,735	-
Depreciable capital assets, net of accumulated depreciation	4,639,315	12,289,959	16,929,274	-
TOTAL ASSETS	6,401,310	17,380,471	23,781,781	1,328,278
LIABILITIES				
CURRENT:				
Accounts payable and accrued expenses	86,905	24,760	111,665	-
Health claims payable	-	-	-	379,527
Notes payable	290,000	-	290,000	-
Current portion of bond and note indebtedness	192,763	586,494	779,257	-
Total Current Liabilities	569,668	611,254	1,180,922	379,527
NONCURRENT:				
Bond and note indebtedness	1,775,400	9,713,619	11,489,019	-
TOTAL LIABILITIES	2,345,068	10,324,873	12,669,941	379,527
NET ASSETS				
Invested in capital assets, net of related debt	3,018,907	6,398,453	9,417,360	-
Held for health claims	-	-	-	948,751
Unrestricted	1,037,335	657,145	1,694,480	-
NET ASSETS	\$ 4,056,242	\$ 7,055,598	\$ 11,111,840	\$ 948,751

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009**

	Business-type Activities			Governmental Activities
	Enterprise Funds			Internal Service Fund - Health Claims
	Water	Sewer	Totals	
OPERATING REVENUES				
Charges for services	\$ 735,091	\$ 715,567	\$ 1,450,658	\$ -
Contributions	-	-	-	1,284,760
Other revenues	12,410	10,019	22,429	23,490
Total Operating Revenues	747,501	725,586	1,473,087	1,308,250
OPERATING EXPENSES				
Operating costs	477,399	692,330	1,169,729	-
Health claims	-	-	-	2,868,132
Depreciation	130,022	307,572	437,594	-
Total Operating Expenses	607,421	999,902	1,607,323	2,868,132
OPERATING INCOME	140,080	(274,316)	(134,236)	(1,559,882)
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	-	-	17,587
Betterments	-	17,619	17,619	-
Interest expense	(23,253)	(71,935)	(95,188)	-
Transfers, net	64,135	170,031	234,166	1,684,973
Total Nonoperating Revenues (Expenses), net	40,882	115,715	156,597	1,702,560
CHANGE IN NET ASSETS	180,962	(158,601)	22,361	142,678
NET ASSETS AT BEGINNING OF YEAR	3,875,280	7,214,199	11,089,479	806,073
NET ASSETS AT END OF YEAR	<u>\$ 4,056,242</u>	<u>\$ 7,055,598</u>	<u>\$ 11,111,840</u>	<u>\$ 948,751</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS -
YEAR ENDED JUNE 30, 2009**

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from users	\$ 599,427	\$ 559,029	\$ 1,158,456
Other revenues	12,410	10,019	22,429
Payments to vendors and employees	(390,494)	(675,862)	(1,066,356)
Net Cash Provided by (Used for) Operating Activities	221,343	(106,814)	114,529
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers, net	27,738	206,428	234,166
Net Cash Used for Noncapital Related Financing Activities	27,738	206,428	234,166
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from betterments	-	212,646	212,646
Subsidies from other governments	33,242	519,165	552,407
Proceeds from issuance of bonds and notes	290,000	-	290,000
Acquisition and construction of capital assets	-	(153,974)	(153,974)
Principal reductions on bonds	(188,236)	(807,234)	(995,470)
Interest expense	(39,631)	(137,085)	(176,716)
Net Cash Used for Capital and Related Financing Activities	95,375	(366,482)	(271,107)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Cash Provided by Investing Activities	-	-	-
NET CHANGE IN CASH AND EQUIVALENTS	344,456	(266,868)	77,588
CASH AND EQUIVALENTS:			
July 1, 2008	389,747	551,803	941,550
June 30, 2009	<u><u>\$ 734,203</u></u>	<u><u>\$ 284,935</u></u>	<u><u>\$ 1,019,138</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 140,080	\$ (274,316)	\$ (134,236)
Depreciation	130,022	307,572	437,594
Changes in assets and liabilities:			
Receivables - user charges	(86,213)	(156,538)	(242,751)
Other assets	(49,451)	-	(49,451)
Liabilities	86,905	16,468	103,373
Net Cash Provided From Operating Activities	<u><u>\$ 221,343</u></u>	<u><u>\$ (106,814)</u></u>	<u><u>\$ 114,529</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Intergovernmental subsidy of principal and interest payments	\$ 100,207	\$ 439,251	\$ 539,458

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009**

	Private Purpose Trust Funds	Agency Funds
	<u>Trust Funds</u>	<u>Funds</u>
ASSETS		
CURRENT:		
Cash and cash equivalents	\$ 443,857	\$ 49,814
Other assets	<u>-</u>	<u>5,595</u>
Total Assets	<u>443,857</u>	<u>55,409</u>
LIABILITIES		
CURRENT:		
Accounts payable and accrued expenses	-	1,479
Planning board deposits	-	47,507
Other liabilities	<u>-</u>	<u>6,423</u>
Total Liabilities	<u>-</u>	<u>55,409</u>
NET ASSETS		
Held in trust for private purposes	<u>443,857</u>	<u>-</u>
Net Assets	<u><u>\$ 443,857</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Funds
	<hr/>
ADDITIONS	
Investment income	\$ 13,305
Contributions	<hr/> 14,650
Total Additions	<hr/> 27,955
 DISBURSEMENTS	
Education - scholarships	8,700
Health and human services - public assistance	<hr/> 9,250
Total Deductions	<hr/> 17,950
 CHANGE IN NET ASSETS	10,005
 NET ASSETS AT BEGINNING OF YEAR (restated see Footnote VII)	<hr/> 433,852
 NET ASSETS AT END OF YEAR	<hr/> \$ 443,857 <hr/>

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

- A. Reporting Entity** – The Town is located in Worcester County and bordered by the State of New Hampshire on its northern side. It encompasses approximately 44 square miles and was established as a Town in 1764. The Town is governed by an elected five-member Board of Selectmen with an appointed Town Administrator. The Board members serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water and sewer services, street maintenance, parks and recreational facilities.
- B. Individual Component Unit Disclosures** – Component units, while separate entities, are in substance part of the governmental operations of the Town due to the significance of their operations and financial relationship with the Town. Pursuant to this criteria there are no entities classified as component units in this report.
- C. Government-Wide and Fund Financial Statements** – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units if any. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legal component units, if any for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given 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 1) charges to customers or applicants who purchase, use, or directly benefit from goods or services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for Governmental Funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues, if material, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However expenditures related to debt service, compensated absences, claims and judgments, and risk financing, are recorded only when payment is due. Interest income associated with the current fiscal period is considered being susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major Governmental Funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

Stabilization Fund – is used to account for certain unencumbered accumulated financial resources that are subject to appropriation as directed by the Town’s Legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise.

Infrastructure Investment Fund – is used to account for certain accumulated financial resources that are held for the specific purpose of funding future debt service that was issued to fund the landfill cap and post-closure monitoring costs.

19th Hill Land Purchase Fund – is used to account for the authorized purchase of a parcel of land commonly known as the “19th Hill” which was acquired for open space and conservation purposes. The purpose of this fund was accomplished, and as a result, the fund was closed during fiscal year 2009.

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

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

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Permanent Funds are used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The government reports the following major proprietary funds:

Enterprise Fund – uses the “economic resources” measurement focus to account for the following specific operations in a manner similar to private business enterprises:

Sewer – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

Water – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Internal Service Fund – is used to account for the Town’s self-insured health insurance related activities.

Additionally, the government reports the following fund types:

Private-Purpose Trust Fund – is used to account for resources legally held in trust for use in funding scholarships and energy support for qualified citizens. There is a requirement that a portion of these resources be preserved as capital.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. As a general rule the *effect* of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the Town’s water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise general revenues include all taxes. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources, as they are needed.

E. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer’s Investment Pool. Investments for the Town, the Retirement System, and its component units are reported at fair value. The State Treasurer’s Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Receivables – All property tax and trade receivables are shown net of an allowance for doubtful collections comprised of those outstanding amounts, which are deemed potentially uncollectible. Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets include property, plant, and equipment and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40-50
Buildings and improvements	40
Equipment, furniture, fixtures and vehicles	5-10

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation benefits. Amounts related to sick-pay benefits are carried forward from year to year, but only vest as buy-back for certain individuals in the police department. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds. Bond anticipation notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts as other financing uses. Issuance costs are exclusively reported as debt service expenditures regardless of whether they are withheld from the actual proceeds.

Risk Financing – The Town does not insure for workers' compensation, health, or unemployment benefits. The Town does insure for casualty, theft, or other losses. Uninsured losses are recorded as expenditures when incurred. Amounts determined to be incurred but not reported are reflected as liabilities of the government activities in the Government-Wide Statement of Net Assets, and in an Internal Service Fund in the Proprietary funds.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as a significant aspect of budgetary control in the Governmental Fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

Fund Equity – In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – 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.

II. Stewardship, Compliance and Accountability

- A. Budgetary Information** - An annual budget is legally adopted for the General Fund and the Enterprise Fund. The budget is initiated by department heads and then prepared by the Town Manager prior to being submitted to the Finance Committee for recommendation. It is then presented to Town Meeting for final approval, annually in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting and the department head however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. The Town made several minor (less than 1%) supplemental budgetary appropriations throughout the year. The majority of these were to supplement the Town's individual appropriations.
- B. Excess of Expenditures Over Appropriations and Deficits** – During the fiscal year ended, expenditures exceeded appropriations for certain special revenue accounts. The over-expenditures are expected to be funded through future intergovernmental revenues.

III. Detailed Notes to All Funds

A. Deposits and Investments

Deposits – Cash and cash equivalents include cash on hand, demand deposits, short-term investments and certificates of deposit with maturities of three months or less. Investments include investments in U.S. governmental agency bonds. The Town maintains a separate cash account for all funds.

GAAP requires disclosure for any investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name. The Town does not maintain any investments subject to these classifications.

In addition, GAAP requires the following disclosures relative to deposits and investments:

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

Credit risk. The Town follows State statutes requiring the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase

agreements, and state treasurer investment pools. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Certain other investment options are available to funds maintained within the permanent funds.

During the fiscal year, the Town invested its funds into bank deposits, money market accounts, certificates of deposit, the State Treasurer's investment pool, mutual funds, corporate equities, corporate fixed income securities, and U.S. government obligations.

In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety (90) days, and the underlying security must be a U.S. government obligation.

As of June 30, 2009, the Town's investments had the following quality ratings:

Investments	Quality Ratings (S&P)				
	AAA	AA+	A	BBB+	Unrated
Corporate fixed income	\$ -	\$ 355,681	\$ 209,546	\$ 75,546	\$ -
U.S. Government obligations	2,826,466	-	-	-	13,672
	<u>\$ 2,826,466</u>	<u>\$ 355,681</u>	<u>\$ 209,546</u>	<u>\$ 75,546</u>	<u>\$ 13,672</u>

Concentration of credit risk. The Town does not maintain balances in any single investment that would represent more than 5% of the Town's total cash, cash equivalents and investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At June 30, 2009, approximately \$2,245,539 of Town deposits in bank accounts, money markets and certificates of deposit was covered by either federal depository insurance or by the depositors' insurance programs. The remainder was uninsured and uncollateralized.

Custodial credit risk – investments. This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. A majority of the investments of the Town have custodial credit risk exposure because they are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities.

As of June 30, 2009, the Town had the following investments:

Investments	Fair Value	Maturity Years			
		< 1	1 - 5	5 - 10	> 10
Corporate fixed income securities	\$ 640,773	\$ -	\$ 385,201	\$ 255,572	\$ -
Government obligations	2,840,138	-	2,840,138	-	-
Total investments with maturities	3,480,911	\$ -	\$ 3,225,339	\$ 255,572	\$ -
Other investments:					
Equity securities	1,270				
Mutual funds	152,191				
Pooled funds - State Treasurer Invest. Pool	18,454				
Certificates of deposit	1,426,812				
Money market accounts	711,133				
Total other investments	2,309,860				
Total Investments	\$ 5,790,771				

Following is a reconciliation of investments and cash and equivalents as summarized above to the balance as recorded in the combined balance sheet:

	Investments	Cash and Equivalents
As presented above	\$ 5,790,771	\$ 4,310,072
Reclass: Short-term investments reported in the combined balance sheet as cash and short-term investments; as follows:		
Pooled funds - State Treasurer Invest. Pool	(18,454)	18,454
Certificates of deposit	(422,140)	422,140
Money market accounts	(711,133)	711,133
Totals	\$ 4,639,044	\$ 5,461,799

B. Receivables

Presentation Breakdown –

Receivables as of year-end for the individual major governmental and nonmajor funds are as follows:

Property taxes	\$ 786,203
Tax liens and possessions	932,177
Excise	273,681
Departmental	142,073
Loans – Title V	58,499
Intergovernmental	<u>3,299,424</u>
Gross receivables	5,492,057
Allowance for Uncollectible accounts	<u>(-)</u>
Net receivables	<u>\$ 5,492,057</u>

Receivables of enterprise funds consisted of:

User Charges:	
Water	\$ 461,492
Sewer	480,532
Betterments:	
Sewer	1,979,012
Intergovernmental:	
Water	499,721
Sewer	<u>2,335,683</u>
Gross receivables	5,756,440
Allowance for Uncollectible accounts	<u>(-)</u>
Net receivables	<u>\$ 5,756,440</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. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in the Governmental Funds amounted to \$5,436,511.

Massachusetts School Building Authority Assistance Reimbursement – As of June 30, 2009, the Town expects to receive as the balance of grants from the Commonwealth of Massachusetts \$3,571,259 applicable to approved school construction costs which includes both principal and interest. Such costs will be reimbursed to the Town in equal annual installments over the balance of the life of the related bonds, and are subject to approval by the State Legislature. The principal portion, \$3,091,857 of this amount is included in the Governmental Funds.

MWPAT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$3,042,971 and interest in the amount of \$2,923,132 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements; therefore, the principal amounts of \$207,567 reported within the General Fund; and \$499,721 and \$2,335,683 relative to the water and sewer debt respectively, have been reflected as receivables in the applicable Enterprise Funds.

Unapportioned Betterments – The Town reflects receivables of \$1,918,915 in its Sewer Enterprise Fund that represents amounts anticipated to be billed in the future for sewer betterments that the Town has funded through bond issuances.

C. Interfund Receivables, Payables and Transfers – Net interfund transfers during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 2,496,523
Major – Stabilization	54,832	7,889
Major – Infrastructure	-	72,917
Major – 19 th Hill Land Purchase	600,000	-
Nonmajor Governmental	107,500	104,142
Internal Service – Health Trust	1,684,973	-
Water	64,135	-
Sewer	<u>170,031</u>	<u>-</u>
Totals	<u>\$ 2,681,471</u>	<u>\$ 2,681,471</u>

Transfers were made to supplement the operating budget.

D. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Governmental Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 1,982,304	\$ -	\$ -	\$ 1,982,304
Construction in progress	579,641	-	(579,641)	-
Total capital assets not being depreciated	2,561,945	-	(579,641)	1,982,304
Capital assets being depreciated:				
Buildings and improvements	27,091,428	125,994	-	27,217,422
Infrastructure	2,036,433	991,380	-	3,027,813
Machinery, equipment and vehicles	9,593,775	148,309	-	9,742,084
Total capital assets being depreciated	38,721,636	1,265,683	-	39,987,319
Less accumulated depreciation for:				
Buildings and improvements	(11,534,917)	(711,151)	-	(12,246,068)
Infrastructure	(165,788)	(104,401)	-	(270,189)
Machinery, equipment and vehicles	(7,109,577)	(463,276)	-	(7,572,853)
Total accumulated depreciation	(18,810,282)	(1,278,828)	-	(20,089,110)
Total capital assets being depreciated, net	19,911,354	(13,145)	-	19,898,209
Governmental activities capital assets, net	\$ 22,473,299	\$ (13,145)	\$ (579,641)	\$ 21,880,513
<i><u>Business Activities:</u></i>				
Capital assets not being depreciated:				
Land	\$ 26,735	\$ -	\$ -	\$ 26,735
Construction in process	13,582,562	-	(13,582,562)	-
Total capital assets not being depreciated	13,609,297	-	(13,582,562)	26,735
Capital assets being depreciated:				
Buildings and improvements	2,532,440	-	-	2,532,440
Infrastructure	4,786,442	13,726,077	-	18,512,519
Machinery, equipment and vehicles	173,747	10,458	-	184,205
Total capital assets being depreciated	7,492,629	13,736,535	-	21,229,164
Less accumulated depreciation for:				
Buildings and improvements	(993,627)	(58,026)	-	(1,051,653)
Infrastructure	(2,752,539)	(372,884)	-	(3,125,423)
Machinery, equipment and vehicles	(116,130)	(6,684)	-	(122,814)
Total accumulated depreciation	(3,862,296)	(437,594)	-	(4,299,890)
Total capital assets being depreciated, net	3,630,333	13,298,941	-	16,929,274
Business activities capital assets, net	\$ 17,239,630	\$ 13,298,941	\$ (13,582,562)	\$ 16,956,009

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities:</u></i>				
Capital assets not being depreciated:				
Water	\$ 2,858,711	\$ -	\$ (2,842,326)	\$ 16,385
Sewer	10,750,586	-	(10,740,236)	10,350
Total capital assets not being depreciated	<u>13,609,297</u>	<u>-</u>	<u>(13,582,562)</u>	<u>26,735</u>
Capital assets being depreciated:				
Water	3,643,356	2,842,326	-	6,485,682
Sewer	3,849,273	10,894,210	-	14,743,483
Total capital assets being depreciated	<u>7,492,629</u>	<u>13,736,536</u>	<u>-</u>	<u>21,229,165</u>
Less accumulated depreciation for:				
Water	(1,716,345)	(130,022)	-	(1,846,367)
Sewer	(2,145,952)	(307,572)	-	(2,453,524)
Total accumulated depreciation	<u>(3,862,297)</u>	<u>(437,594)</u>	<u>-</u>	<u>(4,299,891)</u>
Total capital assets being depreciated, net	<u>3,630,332</u>	<u>13,298,942</u>	<u>-</u>	<u>16,929,274</u>
Business-type activities capital assets, net	<u>\$ 17,239,629</u>	<u>\$ 13,298,942</u>	<u>\$ (13,582,562)</u>	<u>\$ 16,956,009</u>

Depreciation expense was charged to functions/programs as follows:

<i><u>Governmental Activities:</u></i>	
General government	\$ 104,637
Public safety	126,678
Education	786,019
Public works	164,208
Health and human services	54,152
Culture and recreation	43,134
	<u>\$ 1,278,828</u>

<i><u>Business-Type Activities:</u></i>	
Water	\$ 130,022
Sewer	307,572
	<u>\$ 437,594</u>

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or state aid anticipation notes (SAANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

Type	Interest Rate	Maturity Date	July 1, 2008	Additions	Retirements	June 30, 2009
BAN	2.64%	Matured	\$ 1,200,000	\$ –	\$(1,200,000)	\$ –
BAN	3.75%	Matured	140,000	–	(140,000)	–
BAN	2.15%	04/14/10	–	290,000	–	290,000
SAAN	1.84%	11/27/09	–	339,480	–	339,480
			<u>\$ 1,340,000</u>	<u>\$ 629,480</u>	<u>\$(1,340,000)</u>	<u>\$ 629,480</u>

F. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs.

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2009 was approximately \$38 million based on an equalized valuation of approximately \$768 million.

MWPAT Loan Subsidies – As previously discussed under III. B., the Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$3,042,971 and interest in the amount of \$2,923,132 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements; therefore, the principal amounts of \$207,567 reported within the General Fund; and \$499,721 and \$2,335,683 relative to the water and sewer debt respectively, have been reflected as receivables in the applicable Enterprise Funds.

Bond and Note Debt Issued - The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2009:

Description of Issue	Maturity Date	Interest Rate	Amounts Outstanding
<i>Governmental Activities:</i>			
State House Note	October 2010	4.70%	\$ 82,000
State House Note	January 2010	4.70%	114,586
General Obligation Bond	February 2013	4.0 - 6.5%	585,000
General Obligation Refunding Bond	March 2012	3.5 - 5.0%	3,760,000
General Obligation Refunding Bond	October 2014	3.125 - 4.25%	1,575,000
MWPAT Note	August 2020	0.00%	93,561
MWPAT Note	August 2019	1.5 - 2.0%	688,790
Total Governmental Activities			<u>\$ 6,898,937</u>
<i>Business-Type Activities - Water:</i>			
State House Note	December 2010	4.70%	\$ 100,000
MWPAT Note	August 2019	1.5 - 2.0%	1,685,940
MWPAT Note	August 2019	1.5 - 2.0%	182,223
Total Water Debt			<u>1,968,163</u>
<i>Business-Type Activities - Sewer:</i>			
USDA Bond Note	June 2031	4.75%	159,353
MWPAT Note	August 2022	1.5 - 2.0%	3,608,526
MWPAT Note	August 2022	1.5 - 2.0%	2,884,419
MWPAT Note	August 2023	1.5 - 2.0%	2,896,327
MWPAT Note	July 2023	0.00%	751,488
Total Sewer Debt			<u>10,300,113</u>
Total Business-Type Activities			<u>\$ 12,268,276</u>

Long-Term Obligations Activity - The following reflects the activity in the long-term liability accounts for the year ended June 30, 2009:

	July 1, 2008	Additions	Reductions	June 30, 2009
<i>Governmental Activities:</i>				
Bond indebtedness	\$ 8,794,618	\$ -	\$ (1,895,681)	\$ 6,898,937
Capital lease obligations	177,606	-	(86,393)	91,213
Landfill monitoring	621,000	-	(27,000)	594,000
Other post employment benefits	-	1,741,457	-	1,741,457
Compensated absences, net	861,008	322,043	-	1,183,051
Total Governmental Activities	<u>\$ 10,454,232</u>	<u>\$ 2,063,500</u>	<u>\$ (2,009,074)</u>	<u>\$ 10,508,658</u>
<i>Business-Type Activities:</i>				
Bond indebtedness:				
Water	\$ 2,156,399	\$ -	\$ (188,236)	\$ 1,968,163
Sewer	11,106,987	-	(806,874)	10,300,113
Compensated absences, net:				
Sewer	8,292	-	(8,292)	-
Total Business-Type Activities	<u>\$ 13,271,678</u>	<u>\$ -</u>	<u>\$ (1,003,402)</u>	<u>\$ 12,268,276</u>

Future Debt Payoff - Payments on general long-term debt obligation bonds and notes due in future years consist of the following:

Year Ending June 30,	Governmental Activities						
	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2010	\$ 1,877,186	\$ (16,108)	\$ 1,861,078	\$ 281,177	\$ (14,636)	\$ 266,541	\$ 2,127,619
2011	1,798,809	(18,785)	1,780,024	202,252	(11,255)	190,997	1,971,021
2012	1,717,809	(19,101)	1,698,708	132,997	(10,687)	122,310	1,821,018
2013	472,810	(18,031)	454,779	63,219	(10,536)	52,683	507,462
2014	322,809	(18,713)	304,096	42,961	(9,453)	33,508	337,604
2015 - 2019	624,046	(95,717)	528,329	70,343	(28,948)	41,395	569,724
2020 - 2021	85,468	(21,112)	64,356	2,733	(1,367)	1,366	65,722
Total	\$ 6,898,937	\$ (207,567)	\$ 6,691,370	\$ 795,682	\$ (86,882)	\$ 708,800	\$ 7,400,170

Year Ending June 30,	Business-Type Activities					
	Principal			Interest		
	Gross	Subsidy	Net	Gross	Subsidy	Net
2010	\$ 779,257	\$ (134,038)	\$ 645,219	\$ 558,212	\$ (391,919)	\$ 166,293
2011	800,866	(149,077)	651,789	512,474	(357,059)	155,415
2012	767,019	(152,403)	614,616	483,011	(342,292)	140,719
2013	790,131	(163,017)	627,114	452,213	(319,501)	132,712
2014	816,880	(185,663)	631,217	384,831	(266,866)	117,965
2015 - 2019	4,494,133	(1,089,090)	3,405,043	1,293,051	(920,348)	372,703
2020 - 2024	3,750,929	(962,116)	2,788,813	322,640	(238,265)	84,375
2025 - 2029	47,023	-	47,023	12,142	-	12,142
2030 - 2031	22,038	-	22,038	1,581	-	1,581
Total	\$ 12,268,276	\$ (2,835,404)	\$ 9,432,872	\$ 4,020,155	\$ (2,836,250)	\$ 1,183,905
						\$ 10,616,777

Authorized and Unissued - The following represents authorized and unissued debt as of June 30, 2009:

Project	Amount
<i>Governmental:</i>	
Chapter 90 highway	\$ 338,440
Landfill	293,053
Equipment	275,000
Dam study	98,000
<i>Business-Type:</i>	
Water	2,575,000
Sewer	1,905,865
Total authorized and unissued	\$ 5,485,358

Capital Lease Obligations – In August 1999, the Town entered into a lease agreement relative to the financing of an HVAC system for one of its school buildings. This financing agreement is scheduled to conclude on August 1, 2009 with a final payment of \$96,303 for remaining principal and interest amounts due.

IV. Other Information

A. Retirement System

System Description – The Town contributes to the Worcester Regional Retirement System (“WRRS” or System”), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (“MGL”) and is administered by Worcester Regional Retirement Board (the “Board”).

Substantially all employees of the Town participate in the System. 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 directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’ Public Employee Retirement Administration Commission (“PERAC”) that includes financial statements and required supplementary information. The report may be obtained by writing to the Board at Worcester Regional Retirement System, 23 Midstate Drive, Suite 106, Auburn, MA 01501.

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 for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town’s contributions to the System for the fiscal years ended June 30, 2009, 2008, and 2007 were \$697,288; \$569,358 and \$556,877, respectively. These contributions were equal to the required contribution for each year as set by the Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Massachusetts Teachers’ Retirement System

Teachers and certain administrative employees of the School Department participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$1,981,058 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

C. Other Post Employment Benefits (OPEB)

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and

beneficiaries (hereinafter referred to as the “Plan”) in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town’s insurance program. The Plan does not issue a stand – alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 298 active employees and 86 retired employees for a total of 384.

Funding Policy – The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. The Town pays \$2.15 per month towards life insurance, the retirees pay the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost is calculated based on the annual required contribution “ARC” of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town’s OPEB obligation:

OPEB obligation at beginning of year	\$ -
Annual required contribution (ARC)	2,150,830
Contributions made	<u>(409,373)</u>
OPEB obligation at end of year	<u>\$ 1,741,457</u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2009*	\$2,150,830**	19.0%	\$1,741,457

* Transition year

** Reflected as Fringe Benefits in the Statement of Activities

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2009 for the most recent actuarial valuation performed as of July 1, 2008, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 22,969,290	\$ 22,969,290	0.00%	\$ 11,621,276	197.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

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

Valuation date:	July 1, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period:	30 years as of July 1, 2008
Interest discount rate:	4.0%
Healthcare/Medical cost trend rate:	11% / 10% respectively, decreasing thereafter

- D. Risk Financing** – The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker’s compensation, and unemployment compensation.

The Town maintains a “reinsured cost reimbursement program” with Blue Cross Blue Shield, (“the Plan”), which covers the group health insurance requirements of a majority of Town employees. The Plan is essentially a self-insurance program, except employee claims in excess of \$60,000, which are reinsured by the Plan. Costs of the Plan are reimbursed 60% by the Town and 40% by the employee. The Town’s plan administrator calculated a liability representing the amount for claims incurred but not reported at June 30, 2009.

The Town is a part of a premium-based self-insurance group which insures for worker’s compensation, and general and personal liability, through the Massachusetts Inter-Local Insurance Association (MIIA). The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town’s experience history. Additionally, the Town is entirely self-insured for police and fire employees’ unemployment. Unemployment claims for other Town employees are paid to employees by the Commonwealth of Massachusetts, for which the Town is billed on a monthly basis. All other insurance is carried through conventional carriers.

Activity regarding this for the year ended June 30, 2009 is as follows:

Liability at beginning of year	\$ 233,519
Provision for losses	3,014,139
Payments for claims	<u>(2,868,131)</u>
Liability at end of year	<u>\$ 379,527</u>

The Town is required to maintain a working capital deposit with the Plan. This deposit amounted to \$438,200 at June 30, 2009 and has been presented as a non-current restricted asset

under the caption Deposits Held By Third Parties in the Government-Wide Financial Statement of Net Assets and in the General Fund under the Fund-Wide presentation.

- E. Commitments and Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2009.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Sewer Treatment Plant Capacity – The Town is under a consent decree from the Department of Environmental Protection, Environmental Protection Agency and U.S. Department of Justice to increase its sewer treatment plant capacity. The total estimated cost of \$15,545,000 represents \$5,500,000 in construction costs and a civil penalty of \$45,000 for failure to respond within required timeframes. In May 1998 and September 2001, the Town authorized borrowing of \$5,000,000 and \$10,500,000 respectively. The Town is currently complying with various interim milestones contained in the decree, and the project is substantially completed.

Safe Water Drinking Act – In a prior year, the Town received a first notice from the Department of Environmental Protection regarding issues to be resolved in order for the Town to comply with the Safe Water Drinking Act. The issues include removal and monitoring of water storage tanks, devices to monitor water leaks, capital project planning, and increased staffing. The cost of compliance cannot be estimated at the current time but will in all likelihood be material to the Town's overall financial statements.

Water Treatment Facility: Operating Agreement – The Ashburnham Winchendon Joint Water Authority has an extended agreement with an outside consultant to operate the water treatment facility until July 31, 2011. The monthly contract amount for these services approximates \$30,000. The Towns of Winchendon and Ashburnham have agreed to share the cost of plant operations based on each Town's actual metered ratio of use. At the time of the original agreement in 2001, this ratio was estimated to be 26% Ashburnham and 74% Winchendon. The actual ratio has subsequently fluctuated with more recent allocations approximating 40% Ashburnham and 60% Winchendon. The Town of Winchendon's cost for the remaining two years of the agreement is expected to approximate slightly more than \$400,000. This amount is anticipated to be funded through annual appropriations and user charges.

F. Landfill Closure and Post-Closure Care Costs

The Town's landfill was closed in fiscal year 1999 and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for thirty (30) years after the landfill cover is installed. The Town presently appropriates \$27,000 per year for post-closure care costs and has recorded a liability of \$594,000 in the governmental activities fund as result of this activity. Actual cost may be higher due to inflation changes in technology or changes in regulations.

V. Implementation of New GASB Pronouncements

In June 2007, the GASB issued GASB No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51). The objective of GASB 51 is to establish accounting and financial reporting requirements for intangible assets such as easements, water rights, timber rights, patents, trademarks and computer software, and reduce inconsistencies in current reporting practices, thereby enhancing the comparability of the accounting and reporting of such assets among state and local governments. GASB 51 is effective for periods beginning after June 15, 2009. The Town will adopt GASB 51 for the fiscal year ending June 30, 2010.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Town will adopt GASB 53 for the fiscal year ending June 30, 2010.

In March 2009 the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to alter the focus to bring greater clarity and consistency to fund balance reporting and terminology used to report fund balance in governmental funds. GASB 54 is effective for periods beginning after June 15, 2010. The Town will adopt GASB 54 for the fiscal year ended June 30, 2011.

The Town is currently evaluating whether the adoptions of these GASB pronouncements will have a material impact on its financial statements.

VI. Economic Dependence

During the year ended June 30, 2009, approximately 49% of revenues of the general fund were recognized from the Commonwealth of Massachusetts.

VII. Restatement of Prior Year Balances

Government-Wide Financial Statements:

	<u>Governmental</u>
Prior year as presented	\$21,352,735
MSBA receivable adjustment	3,758,203
MWPAT subsidy adjustment	222,935
Reclassified to Private Purpose	<u>(433,852)</u>
As restated	<u>\$24,900,021</u>

Fund Financial Statements:

	<u>Landfill</u>	<u>Nonmajor</u>	<u>Private Purpose</u>
Prior year as presented	\$ -	\$ 4,243,303	\$ -
Reclassified to Landfill	1,227,272	(1,227,272)	-
Reclassified to Private Purpose	<u>-</u>	<u>(433,852)</u>	<u>433,852</u>
As restated	<u>\$ 1,227,272</u>	<u>\$ 2,582,179</u>	<u>\$ 433,852</u>

TOWN OF WINCHENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

SCHEDULES OF FUNDING PROGRESS

Pension System						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2007	\$ 389,758,785	\$ 692,768,325	\$ 303,009,540	56.3%	\$ 211,518,755	143.3%
1/1/2004	\$ 350,879,900	\$ 552,773,549	\$ 201,893,649	63.5%	\$ 170,669,442	118.3%
1/1/2001	\$ 316,389,108	\$ 426,280,953	\$ 109,891,845	74.2%	\$ 145,000,347	75.8%

Other Post Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2008	\$ -	\$ 22,969,290	\$ 22,969,290	0.0%	\$ 11,621,276	197.6%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System					
Fiscal Year Ended June 30,	Worcester Regional Retirement System			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2009	\$ 26,400,000	\$ 26,400,000	100.0%	\$ 697,288	2.6%
2008	\$ 22,997,692	\$ 22,997,692	100.0%	569,358	2.5%
2009	\$ 21,982,772	\$ 21,982,772	100.0%	556,877	2.5%

Other Post Employment Benefits			
Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2009	\$ 2,150,830	\$ 409,373	19.0%

See accompanying independent auditor's report.

TOWN OF WINCHENDON, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary		Budgetary	Favorable
	Budget	Budget	Amounts	Encumbrances	Adjusted	(Unfavorable)
REVENUES						
Real estate and personal property taxes, net	\$ 9,182,620	\$ 9,182,620	\$ 9,293,715	\$ -	\$ 9,293,715	\$ 111,095
Intergovernmental	14,172,982	14,172,982	12,815,858	-	12,815,858	(1,357,124)
Motor vehicle and other excises	900,000	900,000	890,951	-	890,951	(9,049)
Departmental and other revenue	954,086	954,086	893,687	-	893,687	(60,399)
License and permits	170,000	170,000	116,643	-	116,643	(53,357)
Penalties and interest on taxes	170,000	170,000	165,093	-	165,093	(4,907)
Fines and forfeitures	4,300	4,300	22,577	-	22,577	18,277
Investment income	70,000	70,000	30,734	-	30,734	(39,266)
Total Revenues	<u>25,623,988</u>	<u>25,623,988</u>	<u>24,229,258</u>	<u>-</u>	<u>24,229,258</u>	<u>(1,394,730)</u>
EXPENDITURES						
General government	1,646,967	1,572,098	1,427,951	20,028	1,447,979	124,119
Public safety	1,968,956	1,973,456	1,940,558	2,674	1,943,232	30,224
Education	14,755,836	14,889,686	13,818,951	173,032	13,991,983	897,703
Public works	1,176,100	1,266,707	1,252,954	4,559	1,257,513	9,194
Health and human services	369,001	401,525	392,510	1,376	393,886	7,639
Culture and recreation	154,290	154,290	152,845	-	152,845	1,445
State and county tax assessments	990,389	990,389	800,028	-	800,028	190,361
Pension and other fringe Benefits	2,984,115	2,964,469	2,412,768	1,429	2,414,197	550,272
Debt service	2,888,200	3,083,110	3,070,814	-	3,070,814	12,296
Total Expenditures	<u>26,933,854</u>	<u>27,295,730</u>	<u>25,269,379</u>	<u>\$ 203,098</u>	<u>25,472,477</u>	<u>1,823,253</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	201,432	201,432	162,616		162,616	(38,816)
Transfers out	-	-	-		-	-
Total Other Financing Sources (Uses)	<u>201,432</u>	<u>201,432</u>	<u>162,616</u>		<u>162,616</u>	<u>(38,816)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(1,108,434)</u>	<u>(1,470,310)</u>	<u>\$ (877,505)</u>		<u>\$ (1,080,603)</u>	<u>\$ 389,707</u>
OTHER BUDGETARY ITEMS:						
Undesignated surplus (free cash)	86,875	368,654				
Overlay	36,835	36,835				
Prior year encumbrances	1,000,899	1,000,899				
Miscellaneous other	(16,175)	63,922				
Total Other Budgetary Items	<u>1,108,434</u>	<u>1,470,310</u>				
NET BUDGET	<u>\$ -</u>	<u>\$ -</u>				

The notes to the financial statements are an integral part of this statement.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2009

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund and the Enterprise Fund. The budget is initiated by department heads and then prepared by the Town Manager prior to being submitted to the Finance Committee for recommendation. It is then presented to Town Meeting for final approval, annually in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting and the department head however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance. The Town made several minor (less than 1%) supplemental budgetary appropriations throughout the year. The majority of these were to supplement the Town's individual appropriations.

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget. Primary differences include the grossing up of revenues and expenditures to reflect On Behalf Teacher's Retirement paid by the Commonwealth and the manner in which debt payment have been presented for GAAP verses how the payments have been budgeted. A reconciliation is provided below:

Revenues on a GAAP basis	\$ 26,210,317
On Behalf Teacher's receipts	(1,981,058)
Revenues on a Budgetary basis	<u>\$ 24,229,259</u>
Expenditures on a GAAP basis	\$ 24,591,298
Employer health insurance contributions	1,684,973
Payment of other funds' debt service	974,166
On Behalf Teacher's expenditures	(1,981,058)
Expenditures on a Budgetary basis	<u>\$ 25,269,379</u>
Transfers on a GAAP basis	\$ 2,496,523
Employer health insurance contributions	(1,684,973)
Payment of other funds' debt service	(974,166)
Transfers on a Budgetary basis	<u>\$ 162,616</u>