

TOWN OF WINCHENDON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2011

TOWN OF WINCHENDON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2011

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	3-10
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to Basic Financial Statements	22-44
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedules of Funding Progress –	
Pension System and Other Post-Employment Benefits	45
Schedule of Contribution Funding –	
Pension System and Other Post-Employment Benefits	45
Schedule of Revenues, Expenditures and Changes in Fund Balances –	
Budget and Actual – General Fund	46
Notes to Required Supplementary Information	47

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, the aggregate discretely presented component unit, 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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

As discussed in Note VI, the Town's prior period financial statements were restated to reflect the effects of the implementation of Governmental Accounting Standard's Board No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 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 unit, each major fund and the aggregate remaining fund information of Town as of June 30, 2011, 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 December 21, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, the funding and contribution progress for pension benefits and other post-employment benefits on page 45 and budgetary comparison information on pages 46 and 47,

Town of Winchendon
Page Two

be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
December 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Winchendon, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. 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 to 47.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$40.9 million (*total net assets*). The nearly \$1.2 million increase in the Town's total net assets was attributable to an increase in *business-type activities* net assets of approximately \$1.7 million offset by a nearly \$0.5 million decrease in *governmental activities* net assets.

The increase in business-type activities net assets was primarily attributable to the recognition of nearly \$1.5 million in intergovernmental revenues in the Town's water enterprise fund in fiscal year 2011. The decrease in government activities net assets is due primarily to the timing of receipts of intergovernmental revenues related to community development projects year-over-year. In addition, government activities recorded an approximate \$1.8 million for non-cash Other Post Employment Benefit costs for fiscal 2011.

- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$6.9 million, which is approximately \$0.4 million lower than the prior year's balances. This was fairly consistent with expectations. Of the ending fund balances, approximately \$1.9 million in the general fund is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures. The Town's nonmajor governmental funds reported an unassigned deficit fund balance of nearly \$0.5 million primarily due to deficits in the Town's capital project funds.
- The accounting treatment for certain items vary greatly between the statement of net assets and the governmental fund balance sheet. Therefore, there are significant differences in equity and fund balance amounts between the two statements noted above. A reconciliation has been provided on page 14 of the accompanying basic financial statements to assist the reader in understanding these differences.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately 7.0% percent of total general fund expenditures and the total general fund balance was approximately 11.5% of total general fund expenditures for the fiscal year ended June 30, 2011.
- The Town's total long-term debt decreased by approximately \$0.4 million during the current fiscal year. The Town borrowed over \$2.2 million in fiscal year 2011 in its water enterprise fund. Normal scheduled debt repayments totaled over \$2.6 million in fiscal year 2011.

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, and 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, similar to 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, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include its water, sewer and transfer station operations.

The government-wide financial statements can be found on pages 11 and 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 two categories: governmental funds, and proprietary funds.

During the current fiscal year, the Town implemented Governmental Accounting Standards Board (“GASB”) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This accounting pronouncement was intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

GASB 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balances associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Nonspendable —amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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 14 and 16 to facilitate this comparison.

The Town maintains several 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. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 13 and 15 of this report.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes on pages 46 and 47 of this report.

Proprietary Funds. The Town's proprietary funds are made up of (1) the Water, Sewer and Transfer Station Enterprise funds, which provides the same type of information presented as *business-type activities* in the government-wide financial statements but in more detail; and (2) the Town's Internal Service Fund, which accounts for the Town's Health Claims Fund.

The basic proprietary fund financial statements can be found on pages 17 to 19 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 to 44 of this report.

Government-Wide Financial Analysis **(See Exhibit I and Exhibit II on pages 9 and 10)**

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$40.9 million (*total net assets*), which represents an approximate \$1.2 million increase from the prior year's balance.

The largest portion (approximately 80.9%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, 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 13.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 5.2%), may be used to meet the government's ongoing obligations to citizens and creditors.

The Town reported positive fund balances in all net asset categories at June 30, 2011.

Governmental Activities. During fiscal year 2011, Town property taxes made up approximately 30.0% of total revenues, up slightly from 29.2% in the prior year. Operating grants and contributions represented approximately 52.3% and 53.8% of total revenues for fiscal years 2011 and 2010, respectively. No other revenues were greater than 10% of total revenues in fiscal years 2011 or 2010.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 75.8% and 75.7% of total fiscal year 2011 and 2010 expenses, respectively. No other expense categories were greater than 10% of total expenses in either 2011 or 2010.

Business-type Activities. Major revenue sources consist of revenue from user charges, which represented approximately 51.2% and 28.1% of total fiscal year 2011 and 2010 revenues, respectively, and capital grants and contributions which are approximately 40.3% and 65.5% of total fiscal year 2011 and 2010 revenues, respectively. Water, sewer and transfer station expenses represented 39.9%, 50.8% and 9.3% of total fiscal year 2011 business-type activities expenses, respectively, and 40.5%, 51.6% and 7.9% of total fiscal year 2010 business-type activities expenses, respectively.

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$6.9 million, which was consistent with the prior year's balances. Of the ending fund balance nearly \$1.9 million in the general fund is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures. The Town's nonmajor governmental funds reported an unassigned deficit fund balance of nearly \$0.5 million primarily due to deficits in the Town's capital project funds.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$1.9 million, while total fund balance was nearly \$3.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The general fund's unassigned fund balance represents approximately 7.0% of total general fund expenditures, while total fund balance represents approximately 11.5% of that same amount.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At June 30, 2011, net assets of the water and sewer enterprise funds were approximately \$5.5 million and \$10.9 million, respectively. The transfer station enterprise fund had a deficit fund balance of \$18,385 at June 30, 2011. The Town's Internal Service Fund had a fund balance of approximately \$0.5 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than 1%. The schedule of budgetary information is provided on pages 46 and 47 of this report.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2011, the Town's investment in capital assets for its governmental and business-type activities totaled approximately \$22.1 million and \$19.7 million, respectively. Governmental net fixed assets increased over \$0.9 million as fiscal year 2011 capital additions of over \$2.1 million exceeded fiscal year 2011 depreciation expense of approximately \$1.2 million. Business-type net fixed assets increased by approximately \$2.5 million as fiscal year 2011 capital additions of nearly \$3.0 million exceeded fiscal year 2011 depreciation expense of approximately \$0.5 million.

The Town has undergone significant capital improvements over the past several years, particularly to its water infrastructure. A significant portion of these improvements were funded with reimbursements from grants provided by the federal government and the Commonwealth of Massachusetts.

Additional information on the Town capital assets can be found on pages 32 to 34 in Note III.C to the financial statements.

Long-term Debt. At June 30, 2011, the Town had total debt outstanding of over \$16.1 million, which represents a decrease of nearly \$0.4 million from the prior year. At June 30, 2011, the Town had \$3.2 million in general obligation bonds of governmental activities and approximately \$12.9 million in general obligation bonds of business-type activities. The Town borrowed over \$2.2 million in fiscal year 2011 in its water enterprise fund. Normal scheduled debt repayments totaled nearly \$2.6 million in fiscal year 2011.

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 \$1.6 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 \$2.7 million of principal and approximately \$2.2 million of interest in aggregate over the next fourteen 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, 2011 was approximately \$33.2 million based on an equalized valuation of approximately \$663 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 on pages 35 to 38 in Notes III.E and F to the financial statements.

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 three years. As a result, many of the Town's residents have found it difficult to stay current with their debt obligations, including those they have with the Town. Unemployment statistics are expected to improve in 2012; however the extent, timing and 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 2012 are approximately 90.5% of the entire levy. The Town does rely to a lesser, but still moderate, 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's tax levy.
- The Town has a significant reliance on intergovernmental receipts from the Commonwealth of Massachusetts and the federal government. For the fiscal year ended June 30, 2011, intergovernmental receipts represented approximately 58% of total 2011 general fund revenues. This is expected to continue in 2012.
- Consistent with both State and National indices, the Town's housing market is in a downward trend that has begun to stabilize. Housing prices are approximately 25% to 30% 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 and certainty of any housing rebound cannot be reasonably estimated at this time.
- The Town responded well to reductions in State Aid and other local non-property tax receipts in fiscal years 2009 to 2011 and showed the ability to strategically lower appropriations in ways that preserved local service levels. However, continued threats to the economy in the form of a recession could continue to place pressure on local revenues and State Aid and the Town continues to monitor this situation closely. The budget for fiscal year 2012 was adopted at the Annual Town Meeting in May 2011.
- The Town set its tax rate for fiscal year 2012 on December 13, 2011.

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 Manager, Town Hall, 109 Front Street, Winchendon, Massachusetts 01475.

Government-Wide Financial Analysis
Exhibit I
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<u>Assets</u>						
Current and other assets	\$ 15,042	\$ 15,316	\$ 10,245	\$ 10,138	\$ 25,287	\$ 25,454
Capital assets, net	22,106	21,198	19,736	17,224	41,843	38,422
Total assets	37,149	36,514	29,981	27,362	67,130	63,876
<u>Liabilities</u>						
Long-term liabilities	8,246	8,107	12,210	10,745	20,456	18,852
Other liabilities	4,321	3,341	1,459	1,957	5,781	5,298
Total liabilities	12,568	11,448	13,669	12,702	26,237	24,150
<u>Net Assets</u>						
Invested in capital assets, net of related debt	18,883	16,176	14,211	12,621	33,094	28,797
Restricted	5,690	7,873	-	-	5,690	7,873
Unrestricted	7	1,017	2,101	2,039	2,108	3,056
Net Assets	\$ 24,581	\$ 25,066	\$ 16,312	\$ 14,660	\$ 40,893	\$ 39,726

Government-Wide Financial Analysis
Exhibit II
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,757	\$ 1,191	\$ 1,880	\$ 1,712	\$ 3,637	\$ 2,903
Operating grants and contributions	17,366	17,678	310	392	17,676	18,070
Capital grants and contributions	1,209	1,620	1,479	3,988	2,688	5,608
General revenues:						
Property taxes	9,961	9,579	-	-	9,961	9,579
Intergovernmental	1,865	1,518	-	-	1,865	1,518
Other	1,068	1,272	-	-	1,068	1,272
Total Revenues	<u>33,226</u>	<u>32,858</u>	<u>3,668</u>	<u>6,092</u>	<u>36,894</u>	<u>38,950</u>
<u>Expenses</u>						
General government	2,041	1,782	-	-	2,041	1,782
Public safety	2,844	3,008	-	-	2,844	3,008
Education	25,253	24,335	-	-	25,253	24,335
Public works	1,298	1,730	-	-	1,298	1,730
Health and human services	626	517	-	-	626	517
Culture and recreation	311	322	-	-	311	322
Community development	701	143	-	-	701	143
Debt service	234	308	-	-	234	308
Water	-	-	857	1,118	857	1,118
Sewer	-	-	1,388	1,426	1,388	1,426
Transfer station	-	-	175	217	175	217
Total Expenses	<u>33,307</u>	<u>32,145</u>	<u>2,420</u>	<u>2,761</u>	<u>35,728</u>	<u>34,906</u>
Change in net assets before transfers	(81)	713	1,248	3,331	1,167	4,044
Transfers	(404)	(215)	404	217	-	2
Change in net assets	(485)	498	1,652	3,548	1,167	4,046
Net assets — beginning of year	<u>25,066</u>	<u>24,568</u>	<u>14,660</u>	<u>11,112</u>	<u>39,726</u>	<u>35,680</u>
Net assets — end of year	<u>\$ 24,581</u>	<u>\$ 25,066</u>	<u>\$ 16,312</u>	<u>\$ 14,660</u>	<u>\$ 40,893</u>	<u>\$ 39,726</u>

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Winchendon Redevelopment Authority
Assets				
Cash and cash equivalents	\$ 3,075,962	\$ 1,754,091	\$ 4,830,053	\$ 19,162
Investments	816,687	-	816,687	-
Restricted cash and cash equivalents	1,607,651	-	1,607,651	-
Restricted investments	3,146,669	-	3,146,669	-
Receivables, net:				
Property taxes	2,207,149	-	2,207,149	-
User fees	-	972,612	972,612	-
Betterments	-	4,687,772	4,687,772	-
Departmental and other	449,844	-	449,844	29,600
Intergovernmental	3,353,242	2,830,473	6,183,715	-
Deposit held by third party	385,000	-	385,000	-
Capital assets not being depreciated	2,505,167	443,368	2,948,535	982,116
Capital assets, net of accumulated depreciation	19,601,210	19,292,759	38,893,969	-
Total Assets	37,148,581	29,981,075	67,129,656	1,030,878
Liabilities				
Warrants and accounts payable	836,580	523,472	1,360,052	-
Accrued payroll and withholdings	76,193	-	76,193	-
Health claims incurred but not reported	434,051	-	434,051	-
Other liabilities	26,468	-	26,468	241,154
Bond anticipation notes payable	879,000	133,000	1,012,000	-
Noncurrent liabilities:				
Due within one year	2,069,149	802,763	2,871,912	-
Due in more than one year	8,246,289	12,210,184	20,456,473	-
Total Liabilities	12,567,730	13,669,419	26,237,149	241,154
Net Assets				
Invested in capital assets, net of related debt	18,883,435	14,210,896	33,094,331	-
Restricted for:				
Nonexpendable permanent funds	332,759	-	332,759	-
Expendable permanent funds	1,274,892	-	1,274,892	-
Health insurance trust	525,551	-	525,551	-
Federal and State grants	1,842,692	-	1,842,692	-
Gifts and donations	975,458	-	975,458	-
Revolving funds	738,788	-	738,788	-
Other purposes	-	-	-	789,724
Unrestricted	7,276	2,100,760	2,108,036	-
Total Net Assets	\$ 24,580,851	\$ 16,311,656	\$ 40,892,507	\$ 789,724

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Winchendon Redevelopment Authority
Primary government:								
Governmental activities:								
General government	\$ 2,041,484	\$ 290,358	\$ 24,007	\$ -	\$ (1,727,119)		\$ (1,727,119)	
Public safety	2,843,965	563,686	58,850	29,808	(2,191,621)		(2,191,621)	
Education	25,252,676	753,714	16,797,449	-	(7,701,513)		(7,701,513)	
Public works	1,297,889	5,277	2,507	342,218	(947,887)		(947,887)	
Health and human services	625,984	86,648	261,950	-	(277,386)		(277,386)	
Culture and recreation	310,861	7,838	20,938	66,338	(215,747)		(215,747)	
Community development	700,734	49,815	75,084	770,377	194,542		194,542	
Debt service	233,760	-	124,957	-	(108,803)		(108,803)	
Total governmental activities	33,307,353	1,757,336	17,365,742	1,208,741	(12,975,534)		(12,975,534)	
Business-type activities:								
Water	856,764	898,893	-	1,478,965		\$ 1,521,094	1,521,094	
Sewer	1,388,412	806,342	309,848	-		(272,222)	(272,222)	
Transfer station	176,167	175,446	-	-		(721)	(721)	
Total business-type activities	2,421,343	1,880,681	309,848	1,478,965		1,248,151	1,248,151	
Total Primary Government	\$ 35,728,696	\$ 3,638,017	\$ 17,675,590	\$ 2,687,706	(12,975,534)	1,248,151	(11,727,383)	
Component unit:								
Winchendon Redevelopment Authority	\$ 74,051	\$ -	\$ -	\$ 28,315				\$ (45,736)
<u>General Revenues:</u>								
					9,961,196	-	9,961,196	-
					802,705	-	802,705	-
					1,864,833	-	1,864,833	-
					173,026	-	173,026	-
					92,333	-	92,333	70
Transfers (net)					(403,874)	403,874	-	-
Total general revenues and transfers					12,490,219	403,874	12,894,093	70
Change in Net Assets					(485,315)	1,652,025	1,166,710	(45,666)
<u>Net Assets:</u>								
Beginning of year					25,066,166	14,659,631	39,725,797	835,390
End of year					\$ 24,580,851	\$ 16,311,656	\$ 40,892,507	\$ 789,724

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 731,557	\$ 2,736,107	\$ 3,467,664
Restricted cash and cash equivalents	-	641,347	641,347
Restricted investments	2,997,052	966,304	3,963,356
Receivables, net	2,605,666	51,327	2,656,993
Due from other government	1,875,701	1,477,541	3,353,242
Total Assets	\$ 8,209,976	\$ 5,872,626	\$ 14,082,602
Liabilities and Fund Balances			
Liabilities:			
Warrants and accounts payable	\$ 556,223	\$ 280,357	\$ 836,580
Accrued payroll and withholdings	76,193	-	76,193
Deferred revenues	4,313,933	1,023,135	5,337,068
Other liabilities	26,468	-	26,468
Bond anticipation notes payable	49,000	830,000	879,000
Total Liabilities	5,021,817	2,133,492	7,155,309
Fund Balances:			
Nonspendable	-	332,759	332,759
Restricted	1,108,982	3,892,884	5,001,866
Committed	55,963	-	55,963
Assigned	78,397	-	78,397
Unassigned	1,944,817	(486,509)	1,458,308
Total Fund Balances	3,188,159	3,739,134	6,927,293
Total Liabilities and Fund Balances	\$ 8,209,976	\$ 5,872,626	\$ 14,082,602

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Governmental Fund Balances	\$ 6,927,293
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,106,377
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred in the funds.	5,337,068
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred in the funds.	525,551
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Landfill monitoring	(540,000)
Bonds and notes payable	(3,222,942)
Compensated absences	(1,297,359)
Other post employment benefits	(5,255,137)
Net Assets of Governmental Activities	<u>\$ 24,580,851</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 9,620,007	\$ -	\$ 9,620,007
Intergovernmental	15,846,418	4,452,062	20,298,480
Motor vehicle and other excises	837,021	-	837,021
Departmental and other revenue	861,943	708,673	1,570,616
Licenses and permits	123,253	-	123,253
Penalties and interest on taxes	173,026	-	173,026
Fines and forfeitures	28,455	-	28,455
Investment income	63,339	34,249	97,588
Contributions and donations	-	924,935	924,935
Total Revenues	<u>27,553,462</u>	<u>6,119,919</u>	<u>33,673,381</u>
Expenditures:			
Current:			
General government	1,286,027	106,212	1,392,239
Public safety	1,979,056	381,099	2,360,155
Education	16,697,270	4,305,542	21,002,812
Public works	1,188,979	351,904	1,540,883
Health and human services	453,792	68,427	522,219
Culture and recreation	156,375	48,238	204,613
Community development	-	700,734	700,734
Pension and fringe benefits	2,962,485	-	2,962,485
Debt service:			
Principal payback	1,798,809	-	1,798,809
Interest expense	233,760	-	233,760
State and county tax assessments	957,475	-	957,475
Total Expenditures	<u>27,714,028</u>	<u>5,962,156</u>	<u>33,676,184</u>
Excess of Revenues Over Expenditures	<u>(160,566)</u>	<u>157,763</u>	<u>(2,803)</u>
Other Financing Sources (Uses):			
Transfers in	243,773	-	243,773
Transfers out	(303,237)	(344,410)	(647,647)
Total Other Financing Sources (Uses)	<u>(59,464)</u>	<u>(344,410)</u>	<u>(403,874)</u>
Net Change in Fund Balances	(220,030)	(186,647)	(406,677)
FUND BALANCES - Beginning of year (as restated, see note VI)	<u>3,408,189</u>	<u>3,925,781</u>	<u>7,333,970</u>
FUND BALANCES - End of year	<u><u>\$ 3,188,159</u></u>	<u><u>\$ 3,739,134</u></u>	<u><u>\$ 6,927,293</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (406,677)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. In 2011, capital outlays amounted to \$2,142,729 and depreciation expense totaled \$1,234,552. 908,177

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. (414,202)

The issuance of long-term debt 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. There were no debt issuances in 2011. 1,798,809

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. (442,215)

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	(184,819)
Other post employment benefits	<u>(1,771,388)</u>

Change in Net Assets of Governmental Activities **\$ (485,315)**

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health-Claims
Assets					
Current assets:					
Cash and cash equivalents	\$ 801,555	\$ 944,419	\$ 8,117	\$ 1,754,091	\$ 424,985
Investments	-	-	-	-	149,617
Receivables (net):					
User charges	458,473	500,645	13,494	972,612	-
Betterments	-	95,397	-	95,397	-
Intergovernmental	318,509	112,078	-	430,587	-
Total current assets	1,578,537	1,652,539	21,611	3,252,687	574,602
Noncurrent assets:					
Receivables (net):					
Betterments	-	4,592,375	-	4,592,375	-
Intergovernmental	380,342	2,019,544	-	2,399,886	-
Deposit held by third party	-	-	-	-	385,000
Capital assets (net)	7,943,654	11,792,473	-	19,736,127	-
Total noncurrent assets	8,323,996	18,404,392	-	26,728,388	385,000
Total Assets	9,902,533	20,056,931	21,611	29,981,075	959,602
Liabilities					
Current liabilities:					
Warrants and accounts payable	480,168	35,515	7,789	523,472	-
Health claims incurred but not reported	-	-	-	-	434,051
Bond anticipation notes payable	133,000	-	-	133,000	-
Bonds and notes payable	183,078	617,341	-	800,419	-
Compensated absences	-	-	2,344	2,344	-
Total current liabilities	796,246	652,856	10,133	1,459,235	434,051
Noncurrent liabilities:					
Compensated absences	-	-	7,033	7,033	-
Other post employment benefits	9,624	60,640	22,830	93,094	-
Bonds and notes payable	3,619,829	8,490,228	-	12,110,057	-
Total noncurrent liabilities	3,629,453	8,550,868	29,863	12,210,184	-
Total Liabilities	4,425,699	9,203,724	39,996	13,669,419	434,051
Net Assets					
Invested in capital assets, net of related debt	4,706,598	9,504,298	-	14,210,896	-
Held for health claims	-	-	-	-	525,551
Unrestricted	770,236	1,348,909	(18,385)	2,100,760	-
Total Net Assets	\$ 5,476,834	\$ 10,853,207	\$ (18,385)	\$ 16,311,656	\$ 525,551

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health-Claims
Operating Revenues:					
Charges for services	\$ 883,287	\$ 801,236	\$ 175,446	\$ 1,859,969	\$ -
Employee contributions	-	-	-	-	1,307,498
Employer contributions	-	-	-	-	1,780,783
Other	15,606	5,106	-	20,712	173,591
Total Operating Revenues	<u>898,893</u>	<u>806,342</u>	<u>175,446</u>	<u>1,880,681</u>	<u>3,261,872</u>
Operating Expenses:					
Operating costs	593,675	647,102	176,167	1,416,944	-
Health claims	-	-	-	-	3,676,074
Depreciation	178,898	308,839	-	487,737	-
Total Operating Expenses	<u>772,573</u>	<u>955,941</u>	<u>176,167</u>	<u>1,904,681</u>	<u>3,676,074</u>
Operating Income (Loss)	<u>126,320</u>	<u>(149,599)</u>	<u>(721)</u>	<u>(24,000)</u>	<u>(414,202)</u>
Nonoperating Revenues (Expenses):					
Intergovernmental	1,478,965	309,848	-	1,788,813	-
Interest expense	(84,191)	(432,471)	-	(516,662)	-
Total Nonoperating Revenues (Expenses)	<u>1,394,774</u>	<u>(122,623)</u>	<u>-</u>	<u>1,272,151</u>	<u>-</u>
Income (Loss) Before Transfers	1,521,094	(272,222)	(721)	1,248,151	(414,202)
Transfers, net	<u>165,834</u>	<u>238,040</u>	<u>-</u>	<u>403,874</u>	<u>-</u>
Change in Net Assets	1,686,928	(34,182)	(721)	1,652,025	(414,202)
Total Net Assets - Beginning of the Year	<u>3,789,906</u>	<u>10,887,389</u>	<u>(17,664)</u>	<u>14,659,631</u>	<u>939,753</u>
Total Net Assets - End of the Year	<u>\$ 5,476,834</u>	<u>\$ 10,853,207</u>	<u>\$ (18,385)</u>	<u>\$ 16,311,656</u>	<u>\$ 525,551</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activities				Governmental Activities
	Water	Sewer	Transfer Station	Total	Internal Service Fund - Health-Claims
Cash Flows from Operating Activities:					
Receipts from users	\$ 786,665	\$ 724,417	\$ 161,952	\$ 1,673,034	\$ -
Employer contributions	-	-	-	-	1,307,498
Receipts from users	-	-	-	-	1,780,783
Other income	15,606	5,106	-	20,712	173,591
Payments to vendors	(159,613)	(614,520)	(176,237)	(950,370)	(3,691,349)
Net Cash Provided by (Used in) Operating Activities	642,658	115,003	(14,285)	743,376	(429,477)
Cash Flows from Noncapital Financing Activities:					
Intergovernmental grants	1,253,648	415,682	-	1,669,330	-
Betterments	-	404,650	-	404,650	-
Transfers, net	165,834	238,040	-	403,874	-
Net Cash Provided by (Used in) Noncapital Financing Activities	1,419,482	1,058,372	-	2,477,854	-
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(2,891,230)	(108,575)	-	(2,999,805)	-
Issuance of bond and note indebtedness	2,227,000	-	-	2,227,000	-
Repayments of bond anticipation notes	(935,000)	-	-	(935,000)	-
Principal payments on bonds and notes	(199,493)	(601,585)	-	(801,078)	-
Interest expense	(84,191)	(432,471)	-	(516,662)	-
Net Cash Used in Capital and Related Financing Activities	(1,882,914)	(1,142,631)	-	(3,025,545)	-
Net Change in Cash and Cash Equivalents	179,226	30,744	(14,285)	195,685	67,444
Cash and Cash Equivalents:					
Beginning of the year	622,329	913,675	22,402	1,558,406	357,541
End of the year	<u>\$ 801,555</u>	<u>\$ 944,419</u>	<u>\$ 8,117</u>	<u>\$ 1,754,091</u>	<u>\$ 424,985</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ 126,320	\$ (149,599)	\$ (721)	\$ (24,000)	\$ (414,202)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	178,898	308,839	-	487,737	-
Changes in assets and liabilities:					
Receivables	(96,622)	(76,819)	(13,494)	(186,935)	-
Accounts payable and accrued expenses	434,062	32,582	(70)	466,574	(15,275)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 642,658</u>	<u>\$ 115,003</u>	<u>\$ (14,285)</u>	<u>\$ 743,376</u>	<u>\$ (429,477)</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011**

	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 449,886	\$ 54,740
	<u> </u>	<u> </u>
Total Assets	449,886	54,740
	<u> </u>	<u> </u>
Liabilities		
Warrants payable	-	6,168
Agency liabilities	-	12,320
Planning board deposits	-	36,252
	<u> </u>	<u> </u>
Total Liabilities	-	54,740
	<u> </u>	<u> </u>
Net Assets		
Held in trust for other purposes	449,886	-
	<u> </u>	<u> </u>
Total Net Assets	<u><u>\$ 449,886</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2011**

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Investment income	\$ 11,292
Contributions	<u>11,159</u>
Total Additions	<u>22,451</u>
DEDUCTIONS	
Education - scholarships	10,050
Health and human services - public assistance	4,304
Other	<u>2,000</u>
Total Deductions	<u>16,354</u>
CHANGE IN NET ASSETS	6,097
NET ASSETS AT BEGINNING OF YEAR	<u>443,789</u>
NET ASSETS AT END OF YEAR	<u>\$ 449,886</u>

See accompanying notes to basic financial statements.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

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 governmental entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity

The Town, which is approximately forty-four square miles, is located in Worcester County and is bordered by the State of New Hampshire on its northern side. The Town was incorporated as a town in 1764. An elected five-member Board of Selectmen governs the Town and an appointed Town Manager oversees the Town's daily executive and administrative duties. Selectmen 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.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. The Town is financially accountable, and is able to impose its will on component units. The Town appoints a voting majority of the component units governing body and there is the potential for the component unit to provide specific financial benefits or to impose specific financial burdens on the Town.

Discretely Presented Component Unit - The Winchendon Redevelopment Authority ("WRA") meets the criteria for inclusion in these financial statements as a component unit. The WRA is organized under Massachusetts state law with the authority to administer the Town's redevelopment activities. The WRA is managed by a five member board, of which four members are appointed by the Town Manager without restriction. The fifth member is appointed by the Governor of the Commonwealth of Massachusetts upon recommendation of the Town Manager. A stand alone report has not been issued for the WRA as of and for the fiscal year ended June 30, 2011.

B. 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. 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. Separate financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

C. 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. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, 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*.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. 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. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town considers property tax revenues to be available if they are both material and collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The Town reports its general fund as its only major governmental fund. The 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.

The *nonmajor governmental funds* consist of 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 that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *capital projects funds* are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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

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

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 are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

The *water fund* 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.

The *sewer fund* accounts user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

The *transfer station fund* accounts for user charges collected to finance costs associated with operating facilities for the disposal of household waste and recycling.

The Town reports an *internal service fund* to account for the activities associated with the Town's self insurance efforts for health benefits.

In addition, the Town reports a *private-purpose trust fund* that 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. Furthermore, *agency funds* are used to account for resources and deposits held by the Town for the benefit of others.

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.

Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow private-sector guidance.

D. 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. Investments for the Town are reported at fair value.

Receivables – 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 up to the statutory percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate taxes, water and sewer user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

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 governmental 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, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. 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.

Capital assets (excluding land and construction-in-process) are depreciated using the straight line method over the following estimated useful lives:

Infrastructure	40 - 50 years
Buildings and improvements	40 years
Equipment, furniture, fixtures and vehicles	5 - 10 years

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*.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is retained by the respective funds.

Compensated Absences – The Town permits 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 a buy-back for certain individuals in the police department. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. A liability for these amounts is reported in governmental fund financial statements only if they have matured.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Bond premiums and discounts, in addition to issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government 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.

Fund Equity – The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the governmental fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – non-spendable, restricted, committed, assigned, and unassigned as described below:

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact. The Town's non-spendable fund balance reported in the nonmajor

governmental funds consists of the corpus of endowments for various Town purposes in the amount of \$332,759.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation. The Town reported \$1,108,982 in its general fund as restricted. This represents amounts restricted by agreement for debt service of the land fill cover costs, in addition, the Town reports the following restricted fund balances in its nonmajor governmental funds:

- Federal and State grants restricted by the awarding authority of \$870,884;
- Revolving funds restricted under Massachusetts General Law (“MGL”) Chapter 44, Section 53E ½ and other state statutes of \$738,788;
- Receipts reserved for appropriation in the amount of \$32,862.
- Numerous significant and minor contributions totaling \$975,458 restricted for various Town functions; and
- Accumulated investment earnings held in expendable permanent funds in the amount of \$1,274,892.

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts. The Town reports the following committed fund balances at June 30, 2011:

- Warrant articles totaling \$55,963 in its general fund; and

Assigned represents amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee. The Town had \$78,397 assigned at June 30, 2011 for encumbrances.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. At June 30, 2011, the combination of the Town’s undesignated fund balance in its general fund of \$56,747 and its general stabilization fund of \$1,888,070, respectively, equaled the reported unassigned fund balance in the general fund of \$1,944,817. There is a negative unassigned fund balance reported in the Town’s nonmajor governmental funds at June 30, 2011 of \$486,509, which consists of a \$70,985 deficit in certain governmental grants and a \$415,524 deficit in the Town’s capital projects fund.

When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use, it is the Town’s policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Town has not established financial policies with respect to maintaining minimum fund balance amounts.

Encumbrances - The Town's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal, approved purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately.

At June 30, 2011, all encumbrances amounted to \$134,360. Of this total, \$55,963 is reported as committed in the general fund and \$78,397 is reported as assigned in the general fund.

GASB 54 Implementation – The Town was required to implement GASB 54 during the year ended June 30, 2011. Major differences from the prior year include: (1) stabilization balances that were reported as a special revenue fund are now reported as part of unassigned fund balance in the general fund; (2) encumbrances that were previously reported as reserved fund balance are currently reported as either committed or assigned fund balances; (3) undesignated fund balance in the general fund is currently reported as assigned fund balance in the general fund; and, (4) reserved fund balance in the nonmajor funds are presently reported as either nonspendable or restricted fund balance in the nonmajor funds.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2011, expenditures exceeded appropriations in the General Fund for snow and ice costs, state and county assessments and unemployment insurance benefits. These over expenditures will be funded through available funds during fiscal year 2012.

F. 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. Detailed Notes to All Funds

A. Deposits and Investments

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

State laws and regulations require 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's investment pool. 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 days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer’s investment pool. 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 days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

At June 30, 2011, all of the Town’s investments in U.S. government obligation were rated Aaa by Moody’s Investors Service, Inc. (“Moody’s”). Of the Town’s investments in corporate fixed income, securities with an aggregate fair value of \$390,392 and \$50,750 were rated Aa2 and B1 by Moody’s, respectively. Investments in corporate fixed income securities with an aggregate fair value of \$5,014 were not rated by Moody’s. No other investment types were rated by Moody’s or any other recognizable credit rating agency.

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 relative to cash holdings. At June 30, 2011, the carrying amount of the Town’s deposits was \$5,570,520 and the bank balance was \$5,537,354. Of the bank balance, \$3,363,865 was not covered by federal depository insurance or by other depositors’ insurance programs. The Town employs a practice of receiving its June 30, allotment of State Aid into a noninsured bank account however the funds are only maintained temporarily as they are transferred in the beginning of the subsequent fiscal year to insured accounts or are spent down to meet July 1 obligations.

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, the Town 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

Investment Maturities – The Town had the following investments at June 30, 2011:

Investments	Fair Value	Maturity in Years			
		Less than Year	1 to 5 Years	6 to 10 Years	Greater than 10 Years
<u>Debt securities:</u>					
U.S. Government obligations	\$ 2,801,686	\$ -	\$ 1,926,523	\$ 875,163	\$ 40,000
Corporate fixed income	446,156	-	446,156	-	-
Certificates of deposit	760,401	297,739	462,662	-	-
Total investments with maturities	<u>4,008,243</u>	<u>\$ 297,739</u>	<u>\$ 2,835,341</u>	<u>\$ 875,163</u>	<u>\$ 40,000</u>
<u>Other investments:</u>					
Equities	1,224				
State Treasurer investment pool	18,591				
Money markets	1,322,696				
Mutual funds	<u>251,628</u>				
Total Investments	<u>\$ 5,602,382</u>				
Cash deposits held	\$ 5,303,304				

The following is a reconciliation of cash, cash equivalents and investments as summarized in the preceding table to the balances reported in the statement of net assets:

	<u>Investments</u>	<u>Cash and Cash Equivalents</u>
As presented above	\$ 5,602,382	\$ 5,303,304
Reclass: Short-term investments reported in the combined balance sheet as cash and and short-term investments as follows:		
Certificates of deposit	(297,739)	297,739
State Treasurer investment pool	(18,591)	18,591
Money markets	<u>(1,322,696)</u>	<u>1,322,696</u>
Totals	<u>\$ 3,963,356</u>	<u>\$ 6,942,330</u>

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

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.

WRA Deposits – State and local statutes place certain limitations on the nature of deposits and investments available to the WRA. The WRA's deposits are subject to custodial credit risk similar to the risks born by the Town. The WRA does not have a formal deposit policy to mitigate custodial credit risk. At June 30, 2011, all of the WRA's bank deposits were covered by federal depository insurance.

B. Receivables

Receivables reported in the government-wide financial statements for governmental activities as of June 30, 2011, net of applicable allowances for uncollectible accounts, include:

	<u>Gross Amount</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Amount</u>
Property taxes	\$ 942,325	\$ —	\$ 942,325
Tax liens and foreclosures	1,264,824	—	1,264,824
Excise taxes	243,410	—	243,410
Departmental	274,848	(119,741)	155,107
Intergovernmental:			
Due from the MSBA	1,636,284	—	1,636,284
Due from the MWPAT	172,674	—	172,674
Due from the Commonwealth – other	1,544,284	—	1,544,284
Other	<u>51,327</u>	<u>—</u>	<u>51,327</u>
Total	<u>\$ 6,129,976</u>	<u>\$ (119,741)</u>	<u>\$ 6,010,235</u>

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2011, net of applicable allowances for uncollectible accounts, include:

User charges:	
Water	\$ 458,473
Sewer	500,645
Transfer station	13,494
Due from the MWPAT – loan subsidies:	
Water	420,667
Sewer	2,131,622
Due from the USDA – water	278,184
Betterments – sewer	<u>4,687,772</u>
Total	<u>\$ 8,490,857</u>

Massachusetts School Building Authority Assistance Reimbursement – As of June 30, 2011, the Town expects to receive \$1,786,630 from the Commonwealth of Massachusetts in the form of principal and interest subsidies for approved school construction costs. 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 of this amount (\$1,636,284) is included in the governmental funds as a receivable.

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 \$2,724,963 and interest in the amount of \$2,209,251 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amounts of \$172,674, \$420,667 and \$2,131,622 are reported as receivables in the general fund, water enterprise fund and sewer enterprise fund, respectively.

Betterments – Unapportioned sewer betterments of \$4,592,375 are included in the betterments receivable figure above and represent amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances.

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. The following table identifies the components of deferred revenues in the governmental funds financial statements:

	General Fund	Nonmajor Funds	Total
Property taxes	\$ 2,106,458	\$ —	\$ 2,106,458
Excise taxes	243,410	—	243,410
Intergovernmental	1,808,958	971,808	2,780,766
Other	<u>155,107</u>	<u>51,327</u>	<u>206,434</u>
Total	<u>\$ 4,313,933</u>	<u>\$ 1,023,135</u>	<u>\$ 5,337,068</u>

Receivables of the WRA consisted of two notes receivable, totaling \$33,300, which are expected to be repaid to the WRA within the next four years. These notes receivable are secured by first mortgages. Accordingly, no allowance for uncollectible accounts has been established at June 30, 2011.

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Governmental Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 1,982,304	\$ -	\$ -	\$ 1,982,304
Construction in progress	-	522,863	-	522,863
Total capital assets not being depreciated	1,982,304	522,863	-	2,505,167
Capital assets being depreciated:				
Buildings and improvements	27,257,596	13,723	-	27,271,319
Infrastructure	3,366,253	1,064,065	-	4,430,318
Machinery, equipment and vehicles	9,721,441	542,078	-	10,263,519
Total capital assets being depreciated	40,345,290	1,619,866	-	41,965,156
Less accumulated depreciation for:				
Buildings and improvements	(12,959,059)	(712,051)	-	(13,671,110)
Infrastructure	(381,641)	(125,654)	-	(507,295)
Machinery, equipment and vehicles	(7,788,694)	(396,847)	-	(8,185,541)
Total accumulated depreciation	(21,129,394)	(1,234,552)	-	(22,363,946)
Total capital assets being depreciated, net	19,215,896	385,314	-	19,601,210
Governmental activities capital assets, net	<u>\$ 21,198,200</u>	<u>\$ 908,177</u>	<u>\$ -</u>	<u>\$ 22,106,377</u>
<u><i>Business Activities:</i></u>				
Capital assets not being depreciated:				
Land	\$ 26,735	\$ -	\$ -	\$ 26,735
Construction in process	416,633	-	-	416,633
Total capital assets not being depreciated	443,368	-	-	443,368
Capital assets being depreciated:				
Buildings and improvements	2,532,440	-	-	2,532,440
Infrastructure	18,512,519	2,999,805	-	21,512,324
Machinery, equipment and vehicles	487,099	-	-	487,099
Total capital assets being depreciated	21,532,058	2,999,805	-	24,531,863
Less accumulated depreciation for:				
Buildings and improvements	(1,109,679)	(58,026)	-	(1,167,705)
Infrastructure	(3,498,307)	(407,882)	-	(3,906,189)
Machinery, equipment and vehicles	(143,381)	(21,829)	-	(165,210)
Total accumulated depreciation	(4,751,367)	(487,737)	-	(5,239,104)
Total capital assets being depreciated, net	16,780,691	2,512,068	-	19,292,759
Business activities capital assets, net	<u>\$ 17,224,059</u>	<u>\$ 2,512,068</u>	<u>\$ -</u>	<u>\$ 19,736,127</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u><i>Business-Type Activities - Water:</i></u>				
Capital assets not being depreciated:				
Land	\$ 16,385	\$ -	\$ -	\$ 16,385
Construction in process	416,633	-	-	416,633
Total capital assets not being depreciated	433,018	-	-	433,018
Capital assets being depreciated:				
Buildings and improvements	2,210,726	-	-	2,210,726
Infrastructure	4,143,849	2,891,230	-	7,035,079
Machinery, equipment and vehicles	434,000	-	-	434,000
Total capital assets being depreciated	6,788,575	2,891,230	-	9,679,805
Less accumulated depreciation for:				
Buildings and improvements	(1,013,165)	(47,302)	-	(1,060,467)
Infrastructure	(867,802)	(113,478)	-	(981,280)
Machinery, equipment and vehicles	(109,304)	(18,118)	-	(127,422)
Total accumulated depreciation	(1,990,271)	(178,898)	-	(2,169,169)
Total capital assets being depreciated, net	4,798,304	2,712,332	-	7,510,636
Water activities capital assets, net	<u>\$ 5,231,322</u>	<u>\$ 2,712,332</u>	<u>\$ -</u>	<u>\$ 7,943,654</u>
<u><i>Business-Type Activities - Sewer:</i></u>				
Capital assets not being depreciated:				
Land	\$ 10,350	\$ -	\$ -	\$ 10,350
Total capital assets not being depreciated	10,350	-	-	10,350
Capital assets being depreciated:				
Buildings and improvements	321,714	-	-	321,714
Infrastructure	14,368,670	108,575	-	14,477,245
Machinery, equipment and vehicles	53,099	-	-	53,099
Total capital assets being depreciated	14,743,483	108,575	-	14,852,058
Less accumulated depreciation for:				
Buildings and improvements	(96,514)	(10,724)	-	(107,238)
Infrastructure	(2,630,505)	(294,405)	-	(2,924,910)
Machinery, equipment and vehicles	(34,077)	(3,710)	-	(37,787)
Total accumulated depreciation	(2,761,096)	(308,839)	-	(3,069,935)
Total capital assets being depreciated, net	11,982,387	(200,264)	-	11,782,123
Sewer activities capital assets, net	<u>\$ 11,992,737</u>	<u>\$ (200,264)</u>	<u>\$ -</u>	<u>\$ 11,792,473</u>
<u><i>Business-Type Activities - All:</i></u>				
Business-type activities capital assets, net	<u>\$ 17,224,059</u>	<u>\$ 2,512,068</u>	<u>\$ -</u>	<u>\$ 19,736,127</u>

For the fiscal year ended June 30, 2011, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 89,826
Public safety	124,973
Education	778,776
Public works	147,723
Health and human services	54,395
Culture and recreation	<u>38,859</u>
Total	<u>\$ 1,234,552</u>

Business-Type Activities:

Water enterprise	\$ 178,898
Sewer enterprise	<u>308,839</u>
	<u>\$ 487,737</u>

D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In			Total	
	General Fund	Water Enterprise	Sewer Enterprise		
General fund		\$ 165,834	\$ 137,403	\$ 303,237	(1)
Nonmajor funds	<u>243,773</u>		<u>100,637</u>	<u>344,410</u>	(2)
	<u>\$ 243,773</u>	<u>\$ 165,834</u>	<u>\$ 238,040</u>	<u>\$ 647,647</u>	

(1) Transfers to enterprise funds for debt service costs.

(2) Transfers to general fund for budgetary purposes and transfers to sewer fund for infrastructure.

E. Temporary Debt

The Town (excluding component units) 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.

Type	Interest Rate	Maturity Date	Balance July 1, 2010	Additions	Retirements	Rollovers	Balance June 30, 2011
BAN	1.20%	4/14/11	\$ 366,000	\$ -	\$ (184,000)	\$ (182,000)	\$ -
BAN	1.10%	12/29/10	800,000	-	(800,000)	-	-
BAN	1.13%	10/14/11	-	830,000	-	-	830,000
BAN	1.03%	4/13/12	-	-	-	182,000	182,000
			<u>\$ 1,166,000</u>	<u>\$ 830,000</u>	<u>\$ (984,000)</u>	<u>\$ -</u>	<u>\$ 1,012,000</u>

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.

Temporary Loan – WRA

On August 10, 2010, the WRA entered into a temporary loan agreement with a commercial bank in the amount of \$255,000. The loan matures on August 10, 2011 with monthly interest payable at a variable rate of no less than 4.5%. The interest rate is determined by adding 0.5% to the current Wall Street Journal Prime Rate. The carrying value of this temporary loan is \$241,154 at June 30, 2011.

F. Long-Term Obligations

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2011:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 5,021,751	\$ -	\$ (1,798,809)	\$ 3,222,942	\$ 1,717,809
Compensated absences	1,112,540	184,819	-	1,297,359	324,340
Landfill closure	567,000	-	(27,000)	540,000	27,000
Other post employment benefits, net	3,483,749	2,292,908	(521,520)	5,255,137	-
Total Governmental Activities	<u>\$ 10,185,040</u>	<u>\$ 2,477,727</u>	<u>\$ (2,347,329)</u>	<u>\$ 10,315,438</u>	<u>\$ 2,069,149</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds and notes payable	\$ 1,775,400	\$ 2,227,000	\$ (199,493)	\$ 3,802,907	\$ 183,078
Other post employment benefits, net	-	9,624	-	9,624	-
Total Water Enterprise	<u>1,775,400</u>	<u>2,236,624</u>	<u>(199,493)</u>	<u>3,812,531</u>	<u>183,078</u>
<u>Sewer</u>					
General obligation bonds and notes payable	9,709,154	-	(601,585)	9,107,569	617,341
Other post employment benefits, net	34,155	26,485	-	60,640	-
Total Sewer Enterprise	<u>9,743,309</u>	<u>26,485</u>	<u>(601,585)</u>	<u>9,168,209</u>	<u>617,341</u>
<u>Transfer Station</u>					
Compensated absences	8,042	1,335	-	9,377	2,344
Other post employment benefits, net	22,769	61	-	22,830	-
Total Transfer Station Enterprise	<u>30,811</u>	<u>1,396</u>	<u>-</u>	<u>32,207</u>	<u>2,344</u>
Total Business-type Activities	<u>\$ 11,549,520</u>	<u>\$ 2,264,505</u>	<u>\$ (801,078)</u>	<u>\$ 13,012,947</u>	<u>\$ 802,763</u>
Total Long-term Obligations	<u>\$ 21,734,560</u>	<u>\$ 4,742,232</u>	<u>\$ (3,148,407)</u>	<u>\$ 23,328,385</u>	<u>\$ 2,871,912</u>

Bond and Note Indebtedness – 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. In addition, the Town incurs various other long-term obligations relative to associated personnel costs and landfill closure.

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

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, 2011 was approximately \$33 million based on an equalized valuation of approximately \$663 million.

General obligation bonds outstanding at June 30, 2011 are as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	3.125 - 6.50%	\$ 4,260,000	\$ -	\$ (1,695,000)	\$ 2,565,000
State house notes	4.70%	41,000	-	(41,000)	-
MWPAT notes	1.50 - 2.0%	720,751	-	(62,809)	657,942
Total Governmental Activities		<u>\$ 5,021,751</u>	<u>\$ -</u>	<u>\$ (1,798,809)</u>	<u>\$ 3,222,942</u>
<u>Business-type Activities - Water:</u>					
State house notes	4.70%	\$ 50,000	\$ -	\$ (50,000)	\$ -
USDA bond notes	2.25 - 3.25%	-	2,227,000	-	2,227,000
MWPAT notes	1.50 - 2.0%	1,725,400	-	(149,493)	1,575,907
Total Water		<u>1,775,400</u>	<u>2,227,000</u>	<u>(199,493)</u>	<u>3,802,907</u>
<u>Business-type Activities - Sewer:</u>					
USDA bond notes	4.75%	150,624	-	(4,678)	145,946
MWPAT notes	1.50 - 2.0%	9,558,530	-	(596,907)	8,961,623
Total Sewer		<u>9,709,154</u>	<u>-</u>	<u>(601,585)</u>	<u>9,107,569</u>
Total Business-type Activities		<u>\$ 11,484,554</u>	<u>\$ 2,227,000</u>	<u>\$ (801,078)</u>	<u>\$ 12,910,476</u>
Total Bond and Note Debt		<u>\$ 16,506,305</u>			<u>\$ 16,133,418</u>

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

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2012	\$ 1,717,809	\$ (19,101)	\$ 1,698,708	\$ 132,997	\$ (21,374)	\$ 111,623	\$ 1,810,331
2013	472,810	(18,031)	454,779	63,219	(21,072)	42,147	496,926
2014	322,809	(18,713)	304,096	42,961	(18,905)	24,056	328,152
2015	322,809	(18,492)	304,317	21,969	(16,486)	5,483	309,800
2016	72,809	(18,654)	54,155	18,029	(14,151)	3,878	58,033
2017 - 2021	313,896	(79,683)	234,213	33,078	(29,991)	3,087	237,300
Totals	<u>\$ 3,222,942</u>	<u>\$ (172,674)</u>	<u>\$ 3,050,268</u>	<u>\$ 312,253</u>	<u>\$ (121,979)</u>	<u>\$ 190,274</u>	<u>\$ 3,240,542</u>

Bonded Debt - Business-Type Activities - Water:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2012	\$ 183,078	\$ (40,325)	\$ 142,753	\$ 135,458	\$ (50,565)	\$ 84,893	\$ 227,646
2013	188,785	(40,129)	148,656	128,681	(48,447)	80,234	228,890
2014	198,820	(43,334)	155,486	119,975	(42,109)	77,866	233,352
2015	204,230	(45,323)	158,907	107,241	(35,180)	72,061	230,968
2016	209,660	(46,405)	163,255	97,160	(30,507)	66,653	229,908
2017 - 2021	964,174	(205,151)	759,023	334,462	(65,089)	269,373	1,028,396
2022 - 2026	225,166	-	225,166	232,504	-	232,504	457,670
2027 - 2031	255,894	-	255,894	201,776	-	201,776	457,670
2032 - 2036	290,974	-	290,974	166,696	-	166,696	457,670
2037 - 2041	331,045	-	331,045	126,625	-	126,625	457,670
2042 - 2046	376,839	-	376,839	80,831	-	80,831	457,670
2047 - 2051	374,242	-	374,242	28,469	-	28,469	402,711
Totals	<u>\$ 3,802,907</u>	<u>\$ (420,667)</u>	<u>\$ 3,382,240</u>	<u>\$ 1,759,878</u>	<u>\$ (271,897)</u>	<u>\$ 1,487,981</u>	<u>\$ 4,870,221</u>

Bonded Debt - Business-Type Activities - Sewer:

Year Ending June 30,	Principal			Interest			Total
	Gross	Subsidy	Net	Gross	Subsidy	Net	
2012	\$ 617,341	\$ (112,078)	\$ 505,263	\$ 405,687	\$ (291,727)	\$ 113,960	\$ 619,223
2013	635,604	(122,888)	512,716	380,808	(271,054)	109,754	622,470
2014	653,202	(142,329)	510,873	321,248	(224,757)	96,491	607,364
2015	675,201	(152,584)	522,617	287,102	(200,722)	86,380	608,997
2016	698,105	(161,919)	536,186	255,122	(178,530)	76,592	612,778
2017 - 2021	3,802,833	(938,504)	2,864,329	800,551	(568,783)	231,768	3,096,097
2022 - 2026	1,983,117	(501,320)	1,481,797	106,199	(79,802)	26,397	1,508,194
2027 - 2030	42,166	-	42,166	5,120	-	5,120	47,286
Totals	<u>\$ 9,107,569</u>	<u>\$ (2,131,622)</u>	<u>\$ 6,975,947</u>	<u>\$ 2,561,837</u>	<u>\$ (1,815,375)</u>	<u>\$ 746,462</u>	<u>\$ 7,722,409</u>

MWPAT Loan Subsidies – As previously noted in Note I. B., the Town has entered into loan agreements with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$2,724,963 and interest in the amount of \$2,209,251 until the maturity of these agreements.

Authorized and Unissued Debt – At June 30, 2011, the Town had authorized and unissued debt for the following:

<u>Project</u>	<u>Amount</u>
<i>Governmental:</i>	
Chapter 90 highway	\$ 799,510
Landfill	293,053
Equipment	275,000
Police station	2,100,000
<i>Business-Type:</i>	
Water	1,773,000
Sewer	1,905,865
Total authorized and unissued	<u>\$ 7,146,428</u>

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Worcester County Retirement System (the “System”), a multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The System was established under Chapter 32 of MGL and is administered by the Worcester Regional Retirement Board (the “Retirement 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 Retirement 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 that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester County 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, 2011, 2010, and 2009 were \$731,207, \$760,064 and \$697,288, respectively. These contributions were equal to the required contribution for each year as set by the Retirement 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 \$2,137,664 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. OPEB – Other Post-Employment Benefits

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 MGL 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.

As of January 1, 2010, the date of the latest actuarial valuation report, the number of participants in the Plan consisted of 275 active employees and 138 retired employees, which include spouses, for a total of 413 participants.

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 cost of the calculated health insurance contributions. The remainder of the health insurance premiums is funded by the Town. The Town pays 50% of the annual cost of life insurance premiums (\$5,000 policy) for each participant; the participants 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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. 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	\$ 3,540,673
Annual required contribution	2,345,353
Interest on net OPEB obligation	141,628
Adjustments to ARC	(157,903)
Contributions made	<u>(521,520)</u>
OPEB obligation at end of year	<u>\$ 5,348,231</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)*</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 2,329,078	22 %	\$ 5,348,231
June 30, 2010	2,274,177	21 %	3,540,673
June 30, 2009	2,150,830	19 %	1,741,457

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$123,184; Public Safety \$303,452; Public Works \$95,330; Health and Human Services \$21,571; Culture and Recreation \$21,470; Education \$1,727,901; Water \$9,624; Sewer \$26,485; and Transfer Station \$61.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2011 for the most recent actuarial valuation performed as of July 1, 2010, was as follows:

<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)</u>	<u>Unfunded AAL (UAAL) (B – A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
\$ -	\$ 25,782,451	\$ 25,782,451	0.00%	\$ 13,241,286	195 %

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, 2010
Actuarial cost method	Entry age normal
Remaining amortization period	27.22 years as of July 1, 2010
Interest discount rate	4%
Healthcare/Medical cost trend rate	9% grading down to 5% in year 2015 and 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 and Blue Shield, ("the Health Plan"), which covers the group health insurance requirements of a majority of Town employees. The Health Plan is essentially a self-insurance program, except employee claims in excess of \$60,000, which are covered by reinsurance through the Health Plan. The Town, as employer, makes health contributions of approximately 60% of the health costs. Employees contribute the remaining 40%. Health claims incurred but not reported at June 30, 2011 are reflected in the table below.

Liability at beginning of year	\$ 449,326
Provision for losses	3,670,819
Payments for claims	<u>(3,686,094)</u>
Liability at end of year	<u>\$ 434,051</u>

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. In addition, the Town is entirely self-insured for police and fire employees' unemployment insurance. 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.

The Town is required to maintain a working capital deposit with the Plan. This deposit amounted to \$385,000 at June 30, 2011 and has been presented as a non-current restricted asset under the caption *deposit held by third party* in statement of net assets in the government-wide presentation 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, 2011, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2011.

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, would not have a material effect on its financial condition.

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, would not have a material effect on its financial condition.

Sewer Treatment Plant Capacity – The Town is under a consent decree from the Massachusetts Department of Environmental Protection (“MA DEP”), the U.S. 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 MA DEP 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. However, in all likelihood, the cost of compliance is expected to have a material effect on the Town’s financial condition.

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 is approximately \$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 year of the agreement is expected to approximate slightly more than \$200,000. 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 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 years after the landfill cover is installed. The Town presently appropriates \$27,000 per annum for post-closure care costs and has recorded a liability of \$540,000 in the governmental activities fund in the government-wide financial statements as result of this activity.

G. Subsequent Events

The Town did not have subsequent events through the financial statement issue date for events requiring recording or disclosure in the year ended June 30, 2011 financial statements.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to alter the focus and to bring greater clarity and consistency to fund balance reporting and terminology used to report fund balance in governmental funds. GASB 54 became effective for the Town in fiscal year 2011. The adoption of GASB 54 had a material impact on the Town’s fund balance reporting. The Town’s stabilization fund is now reported in its general fund and terminology for all other funds was amended to conform to GASB 54 requirements.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of GASB 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of GASB 59 are effective for financial statements for periods beginning after June 15, 2010. The implementation of GASB 59 did not have a material effect on the Town’s financial statements.

B. Future Year Implementation

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of GASB 57 are effective for financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2013). Statement 57 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The Town does not expect that the adoption of GASB 57 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town does not expect that the adoption of GASB 60 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those

Statements. The provisions of GASB 61 are effective for financial statements for periods beginning after June 15, 2012 (i.e., fiscal year 2013). The Town does not expect that the adoption of GASB 61 will have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is intended to enhance the usefulness of its codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

V. Economic Dependence

During the year ended June 30, 2011, approximately 58% of revenues of the general fund were recognized from the Commonwealth of Massachusetts as well as the federal government.

VI. Prior Period Restatements

The prior period ending general fund balance was increased by \$3,006,709; the prior period ending stabilization fund balance was reduced by \$1,842,970 and the prior year ending infrastructure investment balance was reduced \$1,163,739. This was done to reflect the effects of implementing GASB 54.

TOWN OF WINCHENDON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2011**

SCHEDULES OF FUNDING PROGRESS

Pension System - Worcester Regional Retirement System (All Participants)

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)
1/1/2010	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%
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%

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)
7/1/2010	\$ -	\$ 25,782,451	\$ 25,782,451	0.0%	\$ 13,241,286	194.7%
7/1/2008	-	22,969,290	22,969,290	0.0%	11,621,276	198.6%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town	
	Annual Required Contributions	Actual Contributions (a)	Percentage Contributed	Actual Contribution (b)	Town's Percentage of System Wide Actual Contributions (b/a)
2011	\$ 31,200,000	\$ 31,200,000	100%	\$ 731,207	2.3%
2010	28,800,000	28,800,000	100%	760,064	2.6%
2009	26,400,000	26,400,000	100%	697,288	2.6%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2011	\$ 2,345,353	\$ 521,520	22.2%
2010	2,274,177	474,961	20.9%
2009	2,150,830	409,373	19.0%

See accompanying independent auditors' report.

TOWN OF WINCHENDON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Favorable
	Budget	Budget	Amounts		Adjusted	(Unfavorable)
Revenues:						
Property taxes	\$ 9,996,445	\$ 9,815,715	\$ 9,620,007		\$ 9,620,007	\$ (195,708)
Intergovernmental	14,032,213	13,821,867	13,855,279		13,855,279	33,412
Motor vehicle and other excise	841,000	841,000	837,021		837,021	(3,979)
Departmental and other revenue	410,772	504,833	674,124		674,124	169,291
Licenses and permits	137,000	137,000	123,253		123,253	(13,747)
Fines and forfeitures	38,000	38,000	28,455		28,455	(9,545)
Penalties and interest on taxes	169,000	169,000	173,026		173,026	4,026
Investment income	11,000	11,000	7,559		7,559	(3,441)
Total Revenues	25,635,430	25,338,415	25,318,724		25,318,724	(19,691)
Expenditures:						
General government	1,366,194	1,318,775	1,300,434	\$ 10,553	1,310,987	7,788
Public safety	1,986,574	1,984,544	1,979,056	3,979	1,983,035	1,509
Education	14,992,801	14,625,367	14,559,607	54,018	14,613,625	11,742
Public works	1,043,328	1,043,328	1,188,979	13,417	1,202,396	(159,068)
Health and human services	433,744	463,459	453,792	-	453,792	9,667
Culture and recreation	157,724	157,724	156,375	-	156,375	1,349
Pension and fringe benefits	2,852,026	2,882,222	2,962,485	-	2,962,485	(80,263)
State and county tax assessments	917,992	917,654	957,475	-	957,475	(39,821)
Debt service	2,261,384	2,251,261	2,251,259	-	2,251,259	2
Total Expenditures	26,011,767	25,644,334	25,809,462	81,967	25,891,429	(247,095)
Other Financing Sources (Uses):						
Transfers in	126,155	231,365	231,365		231,365	-
Transfers out	(12,408)	(12,408)	(12,408)		(12,408)	-
Total Other Financing Sources (Uses)	113,747	218,957	218,957		218,957	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(262,590)</u>	<u>(86,962)</u>	<u>\$ (271,781)</u>		<u>\$ (353,748)</u>	<u>\$ (266,786)</u>
Other Budgetary Items:						
Prior year encumbrances	183,002	183,002				
Free cash	32,888	32,888				
Prior year deficits	-	(175,628)				
From overlay surplus	46,700	46,700				
Total other budgetary items	262,590	86,962				
NET BUDGET	<u>\$ -</u>	<u>\$ -</u>				

See notes to the required supplementary information of this schedule.

See accompanying independent auditors' report.

TOWN OF WINCHENDON, MASSACHUSETTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

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 Manager may, without Town Meeting approval transfer unencumbered appropriation balances between departments (except School). 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.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis other than GAAP. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2011, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 25,318,724
On behalf payments	\$ 2,137,664	\$ -	2,137,664
Interest earned by Landfill Fund	-	23,088	23,088
Interest earned by Stabilization Fund	-	32,692	32,692
MWPAT subsidy	41,294	-	41,294
Revenue on a GAAP basis	<u>\$ 2,178,958</u>	<u>\$ 55,780</u>	<u>\$ 27,553,462</u>
Expenditures on a budgetary basis			\$ 25,809,462
On behalf payments	\$ 2,137,664	\$ -	2,137,664
BAN recognition	(49,000)	-	(49,000)
Reclassify expenditures as transfers	-	(225,392)	(225,392)
MWPAT subsidy	41,294	-	41,294
Expenditures on a GAAP basis	<u>\$ 2,129,958</u>	<u>\$ (225,392)</u>	<u>\$ 27,714,028</u>
Transfers on a budgetary basis (net)			\$ 218,957
Reclassify expenditures as transfers	\$ -	\$ (225,392)	(225,392)
Transfer recognition	-	(40,621)	(40,621)
Stabilization transfers	-	(12,408)	(12,408)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (278,421)</u>	<u>\$ (59,464)</u>

Appropriation Deficits – During the fiscal year ended, expenditures exceeded appropriations in the General Fund for snow and ice costs, state and county assessments and unemployment costs. These over expenditures will be funded through available funds during fiscal year 2012.