

TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts, 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 of Douglas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2011, on our consideration of the Town's internal control over financial reporting and on 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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, we offer readers this narrative overview and analysis of the financial activities of the Town of Douglas for the fiscal year ended June 30, 2011.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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 our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water/sewer, and transfer station activities.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer and transfer station operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/sewer and transfer station operations, both of which are considered to be major funds.

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

Notes to 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary infor-

mation which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 38,637,227 (i.e., net assets), a change of \$ (920,124) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,165,175, a change of \$ (2,049,053) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 617,447, a change of \$ (85,304) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 16,307,462, a change of \$ (1,396,683) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 13,797	\$ 14,420	\$ 1,502	\$ 1,625	\$ 15,299	\$ 16,045
Capital assets	<u>35,693</u>	<u>34,670</u>	<u>10,519</u>	<u>10,687</u>	<u>46,212</u>	<u>45,357</u>
Total assets	<u>49,490</u>	<u>49,090</u>	<u>12,021</u>	<u>12,312</u>	<u>61,511</u>	<u>61,402</u>
Long-term liabilities outstanding	12,487	12,676	5,455	5,798	17,942	18,474
Other liabilities	<u>4,311</u>	<u>2,604</u>	<u>621</u>	<u>767</u>	<u>4,932</u>	<u>3,371</u>
Total liabilities	<u>16,798</u>	<u>15,280</u>	<u>6,076</u>	<u>6,565</u>	<u>22,874</u>	<u>21,845</u>
Net assets:						
Invested in capital assets, net	24,599	23,766	4,637	4,549	29,236	28,315
Restricted	1,399	1,837	-	-	1,399	1,837
Unrestricted	<u>6,694</u>	<u>8,207</u>	<u>1,308</u>	<u>1,198</u>	<u>8,002</u>	<u>9,405</u>
Total net assets	<u>\$ 32,692</u>	<u>\$ 33,810</u>	<u>\$ 5,945</u>	<u>\$ 5,747</u>	<u>\$ 38,637</u>	<u>\$ 39,557</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 990	\$ 932	\$ 1,345	\$ 1,211	\$ 2,335	\$ 2,143
Operating grants and contributions	11,640	11,592	-	-	11,640	11,592
Capital grants and contributions	178	28	-	-	178	28
General revenues:						
Property taxes	11,395	11,075	-	-	11,395	11,075
Excises	973	880	-	-	973	880
Penalties and interest on taxes	142	128	-	-	142	128
Grants and contributions not restricted to specific programs	903	918	-	-	903	918
Investment income	30	34	1	7	31	41
Other	235	305	10	30	245	335
Total revenues	<u>26,486</u>	<u>25,892</u>	<u>1,356</u>	<u>1,248</u>	<u>27,842</u>	<u>27,140</u>
Expenses:						
General government	1,558	1,690	-	-	1,558	1,690
Public safety	2,396	2,234	-	-	2,396	2,234
Education	17,113	16,064	-	-	17,113	16,064
Public works	1,076	672	-	-	1,076	683
Human services	283	240	-	-	283	240
Culture and recreation	260	241	-	-	260	241
Employee benefits	3,893	4,440	-	-	3,893	4,290
Intergovernmental	233	504	-	-	233	504
Interest on long-term debt	474	249	-	-	474	249
Water/sewer operations	-	-	1,233	1,176	1,233	1,315
Transfer station	-	-	243	260	243	260
Total expenses	<u>27,286</u>	<u>26,334</u>	<u>1,476</u>	<u>1,436</u>	<u>28,762</u>	<u>27,770</u>
Change in net assets before transfers	(800)	(442)	(120)	(188)	(920)	(630)
Transfers in (out)	<u>(318)</u>	<u>(331)</u>	<u>318</u>	<u>331</u>	<u>-</u>	<u>-</u>
Change in net assets	(1,118)	(773)	198	143	(920)	(630)
Net assets - beginning of	<u>33,810</u>	<u>34,583</u>	<u>5,747</u>	<u>5,604</u>	<u>39,557</u>	<u>40,187</u>
Net assets - end of year	<u>\$ 32,692</u>	<u>\$ 33,810</u>	<u>\$ 5,945</u>	<u>\$ 5,747</u>	<u>\$ 38,637</u>	<u>\$ 39,557</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 38,637,227, a change of \$ (920,124) from the prior year.

The largest portion of net assets \$ 29,236,811 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any

related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in 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 net assets \$ 1,399,303 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 8,001,113 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (1,118,305). Key elements of this change are as follows:

General fund operating results	\$ (351,931)
Elementary & middle school capital project fund deficit - accrual basis	(500,605)
Nonmajor funds surplus - accrual basis	938,067
Excess depreciation over principal maturities, a budgeted expense	(225,112)
Other post employment benefits liability	(747,310)
Other GAAP accruals	<u>(231,414)</u>
Total	<u>\$ (1,118,305)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 198,181. Key elements of this change are as follows:

Water/sewer operations	\$ 171,333
Transfer station operations	<u>26,848</u>
Total	<u>\$ 198,181</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 3,165,175, a change of \$ (2,049,053) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results	\$ (351,931)
Elementary & middle school capital project fund operating results	(1,032,057)
Nonmajor funds operating results	<u>(665,065)</u>
Total	<u>\$ (2,049,053)</u>

In fiscal year 2011, the Town of Douglas implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in the stabilization fund, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 617,447, while total fund balance was \$ 2,378,084. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 617,447	\$ 702,751	\$ (85,304)	2.6%
Total fund balance ¹	2,378,084	1,177,107	1,200,977	10.0%

¹Now includes stabilization fund. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund changed by \$ (351,931) during the current fiscal year. Key factors in this change are as follows:

Excess of state and local revenues over budget	\$ 189,319
Budgetary appropriation surplus	134,977
Excess tax collections over budget	196,805
Excess of prior year encumbrances spent in the current year over current year encumbrances to be spent in the subsequent year	(4,427)
Use of free cash	(471,893)
Use of reserved fund balances	(130,588)
Change in stabilization balance	<u>(266,124)</u>
Total	<u>\$ (351,931)</u>

Included in the total general fund balance is the Town's stabilization account with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ 1,286,784	\$ 1,552,908	\$ (266,124)

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 1,307,919, a change of \$ 259,784 in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Major differences between the original budget and the final amended budget are highlighted below:

- \$ 214,164 Snow and ice – increase due to extraordinary high snow and ice expense
- \$ 23,448 Veteran's benefits – increase in veteran's benefits
- \$ (143,858) Health insurance – decrease in health insurance premiums due to change in plan design
- \$ 67,400 Unemployment – increase in unemployment

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 46,211,824 (net of accumulated depreciation), a change of \$ 854,393 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- \$ 782,313 of construction in progress school feasibility and schematic design
- \$ 531,475 of construction in progress on the elementary school
- \$ 500,582 of construction in progress on the middle school

Additional information on capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 16,307,462, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Douglas' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Town Accountant
Town of Douglas
29 Depot Street
Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 5,088,207	\$ 1,299,907	\$ 6,388,114
Investments	1,286,784		1,286,784
Receivables, net of allowance for uncollectibles:			
Property taxes	298,374	-	298,374
Excises	72,092	-	72,092
User fees	-	202,150	202,150
Departmental and other	155,355	-	155,355
Intergovernmental	672,762	-	672,762
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	547,985	-	547,985
Intergovernmental	5,675,275	-	5,675,275
Capital assets:			
Land and construction in progress	7,471,584	401,122	7,872,706
Other capital assets, net of accumulated depreciation	28,221,254	10,117,864	38,339,118
TOTAL ASSETS	49,489,672	12,021,043	61,510,715
LIABILITIES			
Current:			
Warrants payable	1,248,216	47,256	1,295,472
Accrued liabilities	418,669	61,243	479,912
Tax refunds payable	36,449	-	36,449
Notes payable	1,500,000	150,000	1,650,000
Other current liabilities	175,363	-	175,363
Current portion of long-term liabilities:			
Bonds payable	916,228	362,012	1,278,240
Landfill	12,200	-	12,200
Compensated absence	2,618	-	2,618
Noncurrent:			
Bonds payable, net of current portion	9,642,074	5,387,148	15,029,222
Landfill, net of current portion	109,800	-	109,800
Compensated absence, net of current portion	49,737	-	49,737
Accrued other post employment benefits	2,686,472	68,003	2,754,475
TOTAL LIABILITIES	16,797,826	6,075,662	22,873,488
NET ASSETS			
Invested in capital assets, net of related debt	24,599,349	4,637,462	29,236,811
Restricted for:			
Grants and other statutory restrictions	1,293,501	-	1,293,501
Permanent funds:			
Nonexpendable	27,502	-	27,502
Expendable	78,300	-	78,300
Unrestricted	6,693,194	1,307,919	8,001,113
TOTAL NET ASSETS	\$ 32,691,846	\$ 5,945,381	\$ 38,637,227

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,557,931	\$ 99,465	\$ 236,916	\$ -	\$ (1,221,550)	\$ -	\$ (1,221,550)
Public safety	2,395,698	398,868	134,265	-	(1,862,565)	-	(1,862,565)
Education	17,113,111	462,972	10,940,666	177,987	(5,531,486)	-	(5,531,486)
Public works	1,075,961	16,235	294,873	-	(764,853)	-	(764,853)
Health and human services	282,559	12,191	5,000	-	(265,368)	-	(265,368)
Culture and recreation	260,046	-	28,515	-	(231,531)	-	(231,531)
Employee benefits	3,892,614	-	-	-	(3,892,614)	-	(3,892,614)
Interest	474,374	-	-	-	(474,374)	-	(474,374)
Intergovernmental	232,787	-	-	-	(232,787)	-	(232,787)
Miscellaneous	367	-	-	-	(367)	-	(367)
Total Governmental Activities	27,285,448	989,731	11,640,235	177,987	(14,477,495)	-	(14,477,495)
Business-Type Activities:							
Water/Sewer services	1,233,186	1,079,190	-	-	-	(153,996)	(153,996)
Transfer station services	242,521	265,512	-	-	-	22,991	22,991
Total Business-Type Activities	1,475,707	1,344,702	-	-	-	(131,005)	(131,005)
Total	\$ 28,761,155	\$ 2,334,433	\$ 11,640,235	\$ 177,987	(14,477,495)	(131,005)	(14,608,500)
General Revenues and Transfers:							
Property taxes					11,395,187	-	11,395,187
Excises					972,737	-	972,737
Penalties, interest and other taxes					141,950	-	141,950
Grants and contributions not restricted to specific programs					902,757	-	902,757
Investment income					30,084	4,255	34,339
Miscellaneous					234,768	6,638	241,406
Transfers, net					(318,293)	318,293	-
Total general revenues and transfers					13,359,190	329,186	13,688,376
Change in Net Assets					(1,118,305)	198,181	(920,124)
Net Assets:							
Beginning of year, as restated					33,810,151	5,747,200	39,557,351
End of year					\$ 32,691,846	\$ 5,945,381	\$ 38,637,227

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General	Elementary & Middle School Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 2,013,644	\$ 1,097,390	\$ 1,977,173	\$ 5,088,207
Investments	1,286,784	-	-	1,286,784
Receivables:				
Property taxes	965,485	-	-	965,485
Excises	106,855	-	-	106,855
Departmental and other	155	-	213,739	213,894
Intergovernmental	57,949	-	98,880	156,829
TOTAL ASSETS	\$ 4,430,872	\$ 1,097,390	\$ 2,289,792	\$ 7,818,054
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 460,744	\$ 629,447	\$ 158,025	\$ 1,248,216
Accrued liabilities	329,045	-	-	329,045
Deferred revenues	1,051,186	-	312,619	1,363,805
Tax refunds payable	36,450	-	-	36,450
Notes payable	-	1,500,000	-	1,500,000
Other liabilities	175,363	-	-	175,363
TOTAL LIABILITIES	2,052,788	2,129,447	470,644	4,652,879
Fund Balances:				
Nonspendable	-	-	27,502	27,502
Restricted	-	-	1,397,421	1,397,421
Committed	1,286,784	-	496,869	1,783,653
Assigned	473,853	-	-	473,853
Unassigned	617,447	(1,032,057)	(102,644)	(517,254)
TOTAL FUND BALANCES	2,378,084	(1,032,057)	1,819,148	3,165,175
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,430,872	\$ 1,097,390	\$ 2,289,792	\$ 7,818,054

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2011

Total governmental fund balances	\$ 3,165,175
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	35,692,838
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,151,377
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(89,624)
• MSBA receivable not reported in governmental funds	6,191,209
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(13,419,129)</u>
Net assets of governmental activities	<u>\$ 32,691,846</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Elementary & Middle School Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 11,426,547	\$ -	\$ -	\$ 11,426,547
Excises	980,284	-	3,321	983,605
Penalties, interest and other taxes	141,950	-	-	141,950
Charges for services	95,801	-	744,277	840,078
Intergovernmental	10,753,972	-	2,346,188	13,100,160
Licenses and permits	96,751	-	-	96,751
Fines and forfeitures	20,263	-	258	20,521
Investment income	28,871	-	1,213	30,084
Miscellaneous	138,306	-	135,615	273,921
Total Revenues	<u>23,682,745</u>	<u>-</u>	<u>3,230,872</u>	<u>26,913,617</u>
Expenditures:				
Current:				
General government	1,421,932	-	-	1,421,932
Public safety	2,195,775	-	88,384	2,284,159
Education	13,345,394	-	121,866	13,467,260
Public works	921,751	1,032,057	3,303,935	5,257,743
Health and human services	227,285	-	304,674	531,959
Culture and recreation	202,750	-	55,275	258,025
Employee benefits	3,645,857	-	47,483	3,693,340
Miscellaneous	367	-	7,396	7,763
Debt service	1,489,409	-	-	1,489,409
Intergovernmental	232,787	-	-	232,787
Total Expenditures	<u>23,683,307</u>	<u>1,032,057</u>	<u>3,929,013</u>	<u>28,644,377</u>
Excess (deficiency) of revenues over expenditures	(562)	(1,032,057)	(698,141)	(1,730,760)
Other Financing Sources (Uses):				
Transfers in	648,948	-	660,003	1,308,951
Transfers out	(1,000,317)	-	(626,927)	(1,627,244)
Total Other Financing Sources (Uses)	<u>(351,369)</u>	<u>-</u>	<u>33,076</u>	<u>(318,293)</u>
Change in fund balance	(351,931)	(1,032,057)	(665,065)	(2,049,053)
Fund Equity, at Beginning of Year, as restated	<u>2,730,015</u>	<u>-</u>	<u>2,484,213</u>	<u>5,214,228</u>
Fund Equity, at End of Year	<u>\$ 2,378,084</u>	<u>\$ (1,032,057)</u>	<u>\$ 1,819,148</u>	<u>\$ 3,165,175</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2011

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,049,053)

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

Capital outlay purchases 2,253,014

Loss on disposition of assets -

Depreciation (1,230,142)

- Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.

(428,181)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt 1,005,030

- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

10,005

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

(678,978)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,118,305)

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 11,229,742	\$ 11,229,742	\$ 11,229,742	\$ -
Excise	914,190	914,190	980,284	66,094
Penalties, interest and other taxes	120,000	120,000	141,950	21,950
Charges for services	100,085	100,085	95,801	(4,284)
Intergovernmental	9,597,633	9,597,633	9,601,973	4,340
Licenses and permits	99,600	99,600	96,751	(2,849)
Fines and forfeits	22,829	22,829	20,263	(2,566)
Investment income	20,000	20,000	19,128	(872)
Miscellaneous	30,800	30,800	138,306	107,506
Transfers in	429,815	429,815	429,815	-
Use of free cash	471,893	471,893	471,893	-
Other sources	<u>130,588</u>	<u>130,588</u>	<u>130,588</u>	<u>-</u>
Total Revenues and Other Sources	23,167,175	23,167,175	23,356,494	189,319
Expenditures and Other Uses:				
General government	1,572,988	1,497,433	1,461,380	36,053
Public safety	2,270,543	2,229,793	2,179,586	50,207
Education	12,172,261	12,172,261	12,162,875	9,386
Public works	741,356	923,681	912,060	11,621
Health and human services	212,042	230,723	227,285	3,438
Culture and recreation	213,462	205,062	202,650	2,412
Debt service	1,807,550	1,807,707	1,807,702	5
Intergovernmental	242,655	242,655	232,787	9,868
Employee benefits	3,746,927	3,670,469	3,658,482	11,987
Miscellaneous	367	367	367	-
Transfers out	<u>187,024</u>	<u>187,024</u>	<u>187,024</u>	<u>-</u>
Total Expenditures and Other Uses	<u>23,167,175</u>	<u>23,167,175</u>	<u>23,032,198</u>	<u>134,977</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>324,296</u>	\$ <u>324,296</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 1,147,143	\$ 152,764	\$ 1,299,907
User fees, net of allowance for uncollectibles	202,150	-	202,150
Total current assets	1,349,293	152,764	1,502,057
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net of accumulated depreciation	10,113,144	4,720	10,117,864
Total noncurrent assets	10,502,528	16,458	10,518,986
TOTAL ASSETS	11,851,821	169,222	12,021,043
<u>LIABILITIES</u>			
Current:			
Warrants payable	28,300	18,956	47,256
Accrued liabilities	61,243	-	61,243
Notes payable	150,000	-	150,000
Current portion of long-term liabilities:			
Bonds payable	362,012	-	362,012
Total current liabilities	601,555	18,956	620,511
Noncurrent:			
Bonds payable, net of current portion	5,387,148	-	5,387,148
Accrued other post employment benefits	68,003	-	68,003
Total noncurrent liabilities	5,455,151	-	5,455,151
TOTAL LIABILITIES	6,056,706	18,956	6,075,662
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,621,004	16,458	4,637,462
Unrestricted	1,174,111	133,808	1,307,919
TOTAL NET ASSETS	\$ 5,795,115	\$ 150,266	\$ 5,945,381

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 1,079,190	\$ 265,512	\$ 1,344,702
Other	<u>3,269</u>	<u>3,369</u>	<u>6,638</u>
Total Operating Revenues	1,082,459	268,881	1,351,340
Operating Expenses:			
Operating expenses	711,536	242,264	953,800
Depreciation	<u>338,102</u>	<u>257</u>	<u>338,359</u>
Total Operating Expenses	<u>1,049,638</u>	<u>242,521</u>	<u>1,292,159</u>
Operating Income (Loss)	32,821	26,360	59,181
Nonoperating Revenues (Expenses):			
Investment income	3,767	488	4,255
Interest expense	<u>(183,548)</u>	<u>-</u>	<u>(183,548)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(179,781)</u>	<u>488</u>	<u>(179,293)</u>
Income (Loss) Before Transfers	(146,960)	26,848	(120,112)
Transfers:			
Transfers in	<u>318,293</u>	<u>-</u>	<u>318,293</u>
Change in Net Assets	171,333	26,848	198,181
Net Assets at Beginning of Year, as restated	<u>5,623,782</u>	<u>123,418</u>	<u>5,747,200</u>
Net Assets at End of Year	<u>\$ 5,795,115</u>	<u>\$ 150,266</u>	<u>\$ 5,945,381</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 981,249	\$ 268,881	\$ 1,250,130
Payments to vendors and employees	<u>(704,218)</u>	<u>(244,265)</u>	<u>(948,483)</u>
Net Cash Provided By Operating Activities	277,031	24,616	301,647
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	<u>318,293</u>	<u>-</u>	<u>318,293</u>
Net Cash Provided By Noncapital Financing Activities	318,293	-	318,293
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(169,880)	-	(169,880)
Principal payments on bonds and notes	(241,653)	-	(241,653)
Interest expense	<u>(183,548)</u>	<u>-</u>	<u>(183,548)</u>
Net Cash (Used For) Provided By Capital and Related Financing Activities	(595,081)	-	(595,081)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>3,767</u>	<u>488</u>	<u>4,255</u>
Net Cash Provided By Investing Activities	<u>3,767</u>	<u>488</u>	<u>4,255</u>
Net Change in Cash and Short-Term Investments	4,010	25,104	29,114
Cash and Short-Term Investments, Beginning of Year	<u>1,143,133</u>	<u>127,660</u>	<u>1,270,793</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,147,143</u>	<u>\$ 152,764</u>	<u>\$ 1,299,907</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (loss)	\$ 32,821	\$ 26,360	\$ 59,181
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	338,102	257	338,359
Changes in assets and liabilities:			
User fees	(101,210)	-	(101,210)
Warrants and accounts payable	(7,196)	(2,001)	(9,197)
Accrued liabilities	(4,651)	-	(4,651)
Accrued other post employment benefits	<u>19,165</u>	<u>-</u>	<u>19,165</u>
Net Cash Provided By Operating Activities	<u>\$ 277,031</u>	<u>\$ 24,616</u>	<u>\$ 301,647</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ 89,232	\$ 383,593
Accounts receivable	<u>-</u>	<u>3,995</u>
Total Assets	89,232	387,588
<u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	-	9,000
Deferred revenue	-	3,995
Other liabilities	<u>-</u>	<u>374,593</u>
Total Liabilities	<u>-</u>	<u>387,588</u>
<u>NET ASSETS</u>		
Total net assets held in trust	\$ <u>89,232</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Private Purpose <u>Trust Funds</u>
Additions:	
Contributions	\$ 1,000
Interest income	<u>346</u>
Total additions	1,346
Deductions:	
Education	<u>1,000</u>
Total deductions	<u>1,000</u>
Net increase	346
Net assets:	
Beginning of year, as restated	<u>88,886</u>
End of year	<u><u>\$ 89,232</u></u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2011, it was determined that no entities met the required GASB 39 criteria of component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, 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*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual govern-

mental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- 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 elementary & middle school capital project fund accounts for the operations pertaining to the construction of the school.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of \$ 4,603.

G. Capital Assets

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

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

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

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the board of selectmen).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet

paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.

- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 23,682,745	\$ 23,683,307
Other financing sources/uses (GAAP basis)	<u>648,948</u>	<u>1,000,317</u>
Subtotal (GAAP Basis)	24,331,693	24,683,624
Adjust tax revenue to accrual basis	(196,805)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(215,508)
To book current year appropriation carryforwards	-	211,081
To record use of free cash	471,893	-
To remove unbudgeted stabilization fund	(228,876)	(495,000)
To reverse the effect of non- budgeted State contributions for teachers retirement	(1,151,999)	(1,151,999)
To record use of overlay surplus	<u>130,588</u>	<u>-</u>
Budgetary basis	<u>\$ 23,356,494</u>	<u>\$ 23,032,198</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

School Athletic Revolving	\$ (6,854)
Clean Energy	(28,000)
Forest Steward Mum	(946)
Forest Steward Chest	(850)
911 Training	(3,694)
Citizens Corp Grant	(2,500)
911 Regional	(50,000)
Chapter 90	(9,800)
Elementary capital project fund	(531,475)
Middle school capital project fund	<u>(500,582)</u>
Total	<u>\$ (1,134,701)</u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

As of June 30, 2011, none of the Town's bank balance(s) of \$ 7,583,127 was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the Town. (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End Aaa</u>
Certificates of deposits	\$ 783		\$ -	\$ 783
Mutual funds	328	N/A	328	-
Federal agency securities	176		-	176
Total investments	<u>\$ 1,287</u>		<u>\$ 328</u>	<u>\$ 959</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a govern-

ment will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and System does not have policies for custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

Wilmington Tr Co	\$ 100,081	8%
Merrick Bk Corp	\$ 75,000	6%
Firstbank P R Santurce	\$ 95,413	7%
Florida Bk Tampa Cd	\$ 110,041	9%
Wright Express Finl Svcs Corp	\$ 100,155	8%
Firstbank P R Santurce	\$ 151,153	12%
GE Money Bk Draper Utah	\$ 151,006	12%
Federal Natl Mtg Assn	\$ 175,574	14%

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>N/A</u>
Debt Related Securities:					
Certificates of deposit	\$ 783	\$ 175	\$ 608	\$ -	\$ -
Mutual funds	328	-	-	-	328
Federal agency securities	<u>176</u>	<u>-</u>	<u>100</u>	<u>76</u>	<u>-</u>
Total	<u>\$ 1,287</u>	<u>\$ 175</u>	<u>\$ 708</u>	<u>\$ 76</u>	<u>\$ 328</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 326	
2010	6	
2009	8	
Prior	<u>3</u>	
		343
Personal Property		
2011	2	
2010	1	
2009	1	
Prior	<u>10</u>	
		14
Tax Liens		<u>608</u>
Total		<u>\$ 965</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 119
Excises	33
Other	2

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2011.

8. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 31,836	\$ -	\$ -	\$ 31,836
Machinery, equipment, and furnishings	5,999	135	(4)	6,130
Infrastructure	4,687	303	-	4,990
Total capital assets, being depreciated	42,522	438	(4)	42,956
Less accumulated depreciation for:				
Buildings and improvements	(8,393)	(843)	-	(9,236)
Machinery, equipment, and furnishings	(4,649)	(288)	4	(4,933)
Infrastructure	(467)	(99)	-	(566)
Total accumulated depreciation	(13,509)	(1,230)	4	(14,735)
Total capital assets, being depreciated, net	29,013	(792)	-	28,221
Capital assets, not being depreciated:				
Land	5,622	-	-	5,622
Construction in progress	35	1,815	-	1,850
Total capital assets, not being depreciated	5,657	1,815	-	7,472
Governmental activities capital assets, net	<u>\$ 34,670</u>	<u>\$ 1,023</u>	<u>\$ -</u>	<u>\$ 35,693</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,057	\$ -	\$ -	\$ 8,057
Machinery, equipment, and furnishings	41	24	-	65
Infrastructure	5,366	146	-	5,512
Total capital assets, being depreciated	13,464	170	-	13,634
Less accumulated depreciation for:				
Buildings and improvements	(925)	(201)	-	(1,126)
Machinery, equipment, and furnishings	(20)	(9)	-	(29)
Infrastructure	(2,233)	(128)	-	(2,361)
Total accumulated depreciation	(3,178)	(338)	-	(3,516)
Total capital assets, being depreciated, net	10,286	(168)	-	10,118
Capital assets, not being depreciated:				
Land	401	-	-	401
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	401	-	-	401
Business-type activities capital assets, net	<u>\$ 10,687</u>	<u>\$ (168)</u>	<u>\$ -</u>	<u>\$ 10,519</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:

General government	\$ 67
Public safety	185
Education	803
Public works	165
Culture and recreation	<u>10</u>
Total depreciation expense - governmental activities	\$ <u>1,230</u>

Business-Type Activities:

Water/sewer	\$ <u>338</u>
Total depreciation expense - business-type activities	\$ <u>338</u>

9. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011. Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

10. Deferred Revenue

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 balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2011 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

12. Notes Payable

The Town had the following notes outstanding at June 30, 2011:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/11</u>
School construction	1.15%	05/27/11	08/12/11	\$ 1,500,000
Sewer line construction	1.05%	01/26/11	07/26/11	<u>150,000</u>
Total				<u>\$ 1,650,000</u>

The following summarizes activity in notes payable during fiscal year 2011 (in thousands):

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
School construction	\$ -	\$ 1,500	\$	\$ 1,500
Sewer line construction	<u>250</u>	<u>150</u>	<u>(250)</u>	<u>150</u>
Total	<u>\$ 250</u>	<u>\$ 1,650</u>	<u>\$ (250)</u>	<u>\$ 1,650</u>

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/11</u>
Land	07/15/18	3.91%	\$ 120,000
Land	12/15/21	4.36%	553,000
Fire/EMS	12/15/12	4.85%	106,925
Police	07/17/12	5.63%	57,500
Post Office	12/15/14	5.25%	103,877
Building Remodel	07/15/13	3.73%	165,000
Ambulance	12/15/11	3.27%	27,000
High School Construction	07/15/23	4.16%	2,945,000
High School Construction	06/01/22	4.05%	<u>6,480,000</u>
Total Governmental Activities:			<u>\$ 10,558,302</u>

<u>Business-Type Activities:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/11</u>
Water	08/01/24	4.25%	\$ 178,392
Well	12/05/14	5.20%	246,861
Water	07/18/34	5.13%	85,289
Water Tank	10/15/17	4.95%	298,076
Sewer Plant	02/01/25	2.00%	4,698,865
Sewer Plant	07/15/24	2.00%	<u>241,677</u>
Total Business-Type Activities:			<u>\$ 5,749,160</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 916,228	\$ 438,909	\$ 1,355,137
2013	912,490	402,610	1,315,100
2014	856,605	365,854	1,222,459
2015	832,979	331,657	1,164,636
2016	835,000	297,923	1,132,923
2017 - 2021	4,640,000	937,625	5,577,625
2022 - 2026	<u>1,565,000</u>	<u>88,194</u>	<u>1,653,194</u>
Total	<u>\$ 10,558,302</u>	<u>\$ 2,862,772</u>	<u>\$ 13,421,074</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 362,012	\$ 173,174	\$ 535,186
2013	372,802	161,321	534,123
2014	420,525	148,158	568,683
2015	430,506	127,331	557,837
2016	378,415	105,931	484,346
2017 - 2021	1,924,193	299,643	2,223,836
2022 - 2026	1,734,522	58,166	1,792,688
2027 - 2031	70,143	22,693	92,836
2032 - 2036	<u>56,042</u>	<u>5,724</u>	<u>61,766</u>
Total	<u>\$ 5,749,160</u>	<u>\$ 1,102,141</u>	<u>\$ 6,851,301</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/10	Additions	Reductions	Total Balance 6/30/11	Less Current Portion	Equals Long-Term Portion 6/30/11
<u>Governmental Activities</u>						
Bonds payable	\$ 11,563	\$ -	\$ (1,005)	\$ 10,558	(916)	9,642
Other:						
Landfill closure	134	-	(12)	122	(12)	110
Compensated absences	60	-	(8)	52	(3)	49
Capital lease	48	-	(48)	-	-	-
Accrued other post-employment benefits	1,789	897	-	2,686	-	2,686
Totals	<u>\$ 13,594</u>	<u>\$ 897</u>	<u>\$ (1,073)</u>	<u>\$ 13,418</u>	<u>\$ (931)</u>	<u>\$ 12,487</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,141	\$ -	\$ (392)	\$ 5,749	\$ (362)	\$ 5,387
Accrued other post-employment benefits	199	-	(131)	68	-	68
Totals	<u>\$ 6,340</u>	<u>\$ -</u>	<u>\$ (523)</u>	<u>\$ 5,817</u>	<u>\$ (362)</u>	<u>\$ 5,455</u>

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town reported \$ 122,000 as landfill closure and postclosure care liability at June 30, 2011. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. General Fund Unassigned Fund Balance Note

The unassigned general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and budgetary basis of reporting the general fund unassigned fund balance:

GAAP basis balance	\$ 617,447
Tax refund estimate	<u>36,450</u>
Statutory (UMAS) Balance	<u>\$ 653,897</u>

17. Subsequent Events

Debt

Subsequent to June 30, 2011, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Elementary and middle school construction	\$ 20,000,000	4.50%	07/11/11	01/15/32
Water refunding	\$ 605,000	4.50%	07/11/11	01/15/32
Manchaug sewer extension	\$ 95,000	4.50%	07/11/11	01/15/32

18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be

disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

19. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2010, the actuarial valuation date, approximately 85 retirees and 251 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid

on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2009.

Annual Required Contribution (ARC)	\$ 1,219,637
Interest on net OPEB obligation	79,521
Adjustment to ARC	<u>(188,390)</u>
Annual OPEB cost	1,110,768
Contributions made	<u>(344,293)</u>
Increase in net OPEB obligation	766,475
Net OPEB obligation - beginning of year	<u>1,988,000</u>
Net OPEB obligation - end of year	<u>\$ 2,754,475</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 1,110,768	31%	\$ 2,754,475
2010	\$ 1,298,000	24%	\$ 1,988,000

The Town's net OPEB obligation as of June 30, 2011 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2010, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 10,786,564
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 10,786,564</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 13,965,267</u>
UAAL as a percentage of covered payroll	<u>77%</u>

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

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and 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.

In the July 1, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend rate of 9%, which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 5 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

20. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Worcester Regional Retirement System at 2 Main Street, Court House Room 3, Worcester, Massachusetts 01608.

A. Plan Description

The Town contributes to the Worcester Regional Retirement System (the System), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Worcester Regional Retirement System at 2 Main Street, Court House Room 3, Worcester, Massachusetts 01608.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$ 644,320, \$ 650,632, and \$ 596,070, respectively, which were equal to its annual required contributions for each of these years.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

D. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
July 1, 1996 - June 30, 2001	9%
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 1,151,999 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

22. Beginning Fund Balance Net Assets Restatement and Reclassification

The beginning (July 1, 2010) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental Activities	Business-Type Activities Enterprise Funds	Total
As previously reported	\$ 33,987,133	\$ 5,608,467	\$ 39,595,600
To restate PY OPEB calculation	(149,962)	149,962	-
To reclass capital project fund to water/sewer	11,229	(11,229)	-
To reclass scholarships to private purpose	(38,249)	-	(38,249)
As restated	\$ <u>33,810,151</u>	\$ <u>5,747,200</u>	\$ <u>39,557,351</u>

Fund Basis Financial Statements:

	Fund Basis Financial Statements				Fiduciary	Business- Type Activities Enterprise Funds
	<u>General Fund</u>	<u>Stabilization Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>	<u>Private Purpose Fund</u>	<u>Water/Sewer</u>
As previously reported	\$ 1,177,107	\$ 1,552,908	\$ 2,511,233	\$ 5,241,248	\$ 50,637	\$ 5,485,049
To restate PY OPEB calculation	-	-	-	-	-	149,962
To reclass scholarships to private purpose	-	-	(38,249)	(38,249)	38,249	-
To reclass stabilization to the general fund	1,552,908	(1,552,908)	-	-	-	-
To reclass capital project fund to water/sewer	-	-	11,229	11,229	-	(11,229)
As restated	<u>\$ 2,730,015</u>	<u>\$ -</u>	<u>\$ 2,484,213</u>	<u>\$ 5,214,228</u>	<u>\$ 88,886</u>	<u>\$ 5,623,782</u>

TOWN OF DOUGLAS, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

(Unaudited)

Other Post-Employment Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
6/30/2009	\$ -	\$ 11,385,000	\$ 11,385,000	0%	\$ 17,172,000	66%
7/1/2010	-	10,786,564	10,786,564	0%	13,965,267	77%

See Independent Auditors' Report.