

TOWN OF SUDBURY, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TOWN OF SUDBURY, MASSACHUSETTS
INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements	14
Statement of net assets	15
Statement of activities.....	16
Governmental funds – balance sheet	18
Governmental funds – statement of revenues, expenditures and changes in fund balances.....	19
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	21
Proprietary funds – statement of net assets.....	22
Proprietary funds – statement of revenues, expenses and changes in fund net assets	23
Proprietary funds – statement of cash flows	24
Fiduciary funds – statement of fiduciary net assets	25
Fiduciary funds – statement of changes in fiduciary net assets	26
Notes to basic financial statements.....	27
Required Supplementary Information.....	55
General fund – schedule of revenues, expenditures and change in fund balance – budget and actual	56
Pension plan schedules	58
Schedules of funding progress (system).....	58
Schedule of employer contributions (system).....	58
Town share of system ARC	58
Other post employment benefits schedule.....	59
Schedules of funding progress.....	59
Notes to required supplementary information.....	60

This page left intentionally blank.

Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Sudbury, 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 Sudbury, Massachusetts, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town of Sudbury, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sudbury, Massachusetts' management. Our responsibility is to express opinions 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 Sudbury, Massachusetts as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 1C, the Town implemented Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2012, on our consideration of the Town of Sudbury, Massachusetts' 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (located on pages 4 through 13) and budgetary comparison, pension and other postemployment benefits information (located on pages 55 through 61) be presented to supplement the basic financial statements. Such information, although not a 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.

Sullivan, Roy & Company, LLC

February 3, 2012

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$94,024,781 (net assets). Of this amount, \$13,984,495 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$1,006,802.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$3,961,520 or 4.8 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt (gross) decreased by \$445,000 during the fiscal year; \$8,480,000 of new debt was issued.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

Government-wide financial statements

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

The **statement of net assets** presents information on all of the Town's non-fiduciary 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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town 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*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's swimming pool, transfer station and recreation field maintenance operations.

The government-wide financial statements can be found on pages 15-17 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 can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 437 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, community preservation (special revenue) and affordable housing (special revenue) funds, each of which are considered to be major funds. Data from the other 434 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-21 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its swimming pool, transfer station and recreation field maintenance activities, each of which are considered to be nonmajor funds.

The basic proprietary funds financial statements can be found on pages 22-24 of this report.

Fiduciary funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 25-26 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-53 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other postemployment benefits information, which can be found on pages 55-61 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$94,024,781 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Assets						
Current assets.....	\$ 38,449,684	\$ 35,683,884	\$ 496,382	\$ 423,385	\$ 38,946,066	\$ 36,107,269
Noncurrent assets (excluding capital assets).....	14,744,789	15,695,535	-	-	14,744,789	15,695,535
Capital assets (net).....	90,227,875	88,925,663	664,801	695,948	90,892,676	89,621,611
Total assets.....	143,422,348	140,305,082	1,161,183	1,119,333	144,583,531	141,424,415
Liabilities						
Current liabilities (excluding debt).....	5,507,394	5,500,437	58,614	51,858	5,566,008	5,552,295
Noncurrent liabilities (excluding debt).....	8,888,819	6,239,941	123,923	80,651	9,012,742	6,320,592
Current debt.....	4,010,000	4,168,549	-	-	4,010,000	4,168,549
Noncurrent debt.....	31,970,000	32,365,000	-	-	31,970,000	32,365,000
Total liabilities.....	50,376,213	48,273,927	182,537	132,509	50,558,750	48,406,436
Net Assets						
Invested in capital assets (net of related debt).....	55,452,411	51,953,929	664,801	695,948	56,117,212	52,649,877
Restricted.....	23,923,074	23,392,819	-	-	23,923,074	23,392,819
Unrestricted.....	13,670,650	16,684,407	313,845	290,876	13,984,495	16,975,283
Total net assets.....	\$ 93,046,135	\$ 92,031,155	\$ 978,646	\$ 986,824	\$ 94,024,781	\$ 93,017,979

A significant portion of the Town's net assets (59.7%) reflects its investment in capital assets (e.g., land, intangible assets, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of 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 (25.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (14.9% or \$13,984,495) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$13,670,650 may be used to support governmental activities and \$313,845 may be used to support business-type activities.

Changes in Net Assets

The Town's total net assets increased by \$1,006,802 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 4,666,239	\$ 3,972,079	\$ 1,033,801	\$ 950,940	\$ 5,700,040	\$ 4,923,019
Operating grants and contributions.....	13,821,768	13,341,758	1,268	1,784	13,823,036	13,343,542
Capital grants and contributions.....	892,330	1,570,899	-	-	892,330	1,570,899
<i>General Revenues:</i>						
Real estate and personal property taxes.....	67,178,824	65,259,091	-	-	67,178,824	65,259,091
Motor vehicle and other excise taxes.....	2,886,859	2,645,117	-	-	2,886,859	2,645,117
Penalties and interest on taxes.....	204,686	163,826	-	-	204,686	163,826
Payments in lieu of taxes.....	64,515	56,102	-	-	64,515	56,102
Community preservation surcharges.....	1,492,938	1,465,694	-	-	1,492,938	1,465,694
Grants and contributions not restricted to specific programs.....	1,238,505	1,377,564	-	-	1,238,505	1,377,564
Unrestricted investment income.....	175,476	199,319	-	-	175,476	199,319
Total revenues.....	92,622,140	90,051,449	1,035,069	952,724	93,657,209	91,004,173
Expenses						
General government.....	4,428,038	3,929,872	-	-	4,428,038	3,929,872
Public safety.....	10,073,036	9,586,346	-	-	10,073,036	9,586,346
Education.....	66,646,480	64,881,039	-	-	66,646,480	64,881,039
Public works.....	5,325,052	5,220,049	-	-	5,325,052	5,220,049
Health and human services.....	1,167,143	1,242,517	-	-	1,167,143	1,242,517
Culture and recreation.....	2,520,748	2,707,935	-	-	2,520,748	2,707,935
Debt service - interest.....	1,476,258	1,757,230	-	-	1,476,258	1,757,230
Swimming pool.....	-	-	550,289	512,957	550,289	512,957
Transfer station.....	-	-	271,114	292,670	271,114	292,670
Recreation field maintenance.....	-	-	192,249	113,606	192,249	113,606
Total expenses.....	91,636,755	89,324,988	1,013,652	919,233	92,650,407	90,244,221
Change in net assets before transfers.....	985,385	726,461	21,417	33,491	1,006,802	759,952
Transfers, net.....	29,595	20,953	(29,595)	(20,953)	-	-
Change in net assets.....	1,014,980	747,414	(8,178)	12,538	1,006,802	759,952
Net assets - beginning of year.....	92,031,155	91,283,741	986,824	974,286	93,017,979	92,258,027
Net assets - end of year.....	<u>\$ 93,046,135</u>	<u>\$ 92,031,155</u>	<u>\$ 978,646</u>	<u>\$ 986,824</u>	<u>\$ 94,024,781</u>	<u>\$ 93,017,979</u>

Governmental activities increased the Town's net assets by \$1,014,980. In the prior year, governmental activities increased the Town's net assets by \$747,414. The key element of this change is a decrease in depreciation expense of approximately \$580,000, primarily as a result of several large assets being fully depreciated in fiscal year 2010.

Business-type activities decreased the Town's net assets by \$8,178. In the prior year, business-type activities increased the Town's net assets by \$12,538. The key element of this change relates to an increase in recreation field maintenance expenses, mainly as a result of fiscal year 2011 being the first full year of expenses charged to this enterprise fund.

Fund Financial Statement Analysis

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

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$30,307,132, an increase of \$2,685,079 in comparison with the prior year. Approximately \$3,962,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$1,013,539)
- Restricted (\$23,464,527)
- Committed (\$296,713)
- Assigned (\$1,570,833)

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 totaled \$3,961,520, while total fund balance was \$12,543,072. 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 and transfers out. Unassigned fund balance represents 4.8% of total general fund expenditures and transfers out, while total fund balance represents 15.2% of that same amount.

The fund balance of the Town's general fund increased \$1,257,909 during the current fiscal year. This is primarily attributable to the following:

- Use of unassigned fund balance (\$1,535,178)
- Conservative spending against budgeted appropriations (positive budget to actual variance of \$2,407,529 before encumbrances and continuing appropriations)

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the community preservation fund (special revenue) decreased by \$301,844 during the current fiscal year. The fund recognized \$1,494,706 in surcharges, \$431,234 in intergovernmental revenues, \$160,489 in investment income, \$2,030,000 in long-term bond proceeds and \$1,555 in premiums from the issuance of long-term bonds. Expenditures of \$4,239,828 were incurred during the fiscal year. Transfers out of \$180,000 to the affordable housing special revenue fund were made during the fiscal year.

The fund balance of the affordable housing fund (special revenue) increased by \$50,582 during the current fiscal year. The fund recognized \$97,983 in revenues, incurred \$227,401 of expenditures and received \$180,000 of transfers from the community preservation fund.

Proprietary funds

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

Unrestricted net assets of the swimming pool, transfer station and recreation field maintenance enterprise funds at the end of the year amounted to \$13,897, \$251,334 and \$48,614, respectively. The swimming pool, transfer station and recreation field maintenance enterprise funds had changes in net assets for the year of (\$62,784), \$62,879 and (\$8,273), respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The Town's original (including prior year encumbrances and continuing appropriations) and final approved budget was \$79,845,126. During the year, revenues were higher than budgetary estimates and expenditures and encumbrances and continuing appropriations were less than budgetary estimates resulting in a positive budget to actual variance of \$606,392.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$90,892,676 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$1,271,065 or 1.42% (a 1.45% increase for governmental activities and a 0.03% decrease for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Purchase of development restrictions - Nobscot land (\$2,023,730)
- Purchase of development restrictions - Fairbank Farm (\$750,000)
- Various roadway and infrastructure improvements (\$939,109)
- Purchases/leases of machinery and equipment (\$408,418)
- Purchases of vehicles (\$106,446)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Land.....	\$ 26,634,101	\$ 26,585,701	\$ 192,500	\$ 192,500	\$ 26,826,601	\$ 26,778,201
Land improvements.....	1,745,435	1,816,817	-	-	1,745,435	1,816,817
Buildings and improvements.....	44,629,058	46,258,899	464,162	493,953	45,093,220	46,752,852
Machinery and equipment.....	2,216,683	2,227,565	8,139	9,495	2,224,822	2,237,060
Vehicles.....	608,050	754,370	-	-	608,050	754,370
Infrastructure.....	6,075,818	5,737,311	-	-	6,075,818	5,737,311
Intangible assets.....	8,318,730	5,545,000	-	-	8,318,730	5,545,000
Total capital assets.....	<u>\$ 90,227,875</u>	<u>\$ 88,925,663</u>	<u>\$ 664,801</u>	<u>\$ 695,948</u>	<u>\$ 90,892,676</u>	<u>\$ 89,621,611</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 40-41 of this report.

Long-Term Debt

At the end of the current fiscal year, the total bonded debt outstanding was \$35,760,000, which is backed by the full faith and credit of the Town and consists entirely of general obligation bonds.

The Town's total gross bonded debt decreased \$445,000 (1.1%) during the current fiscal year. During the fiscal year, the Town issued long-term debt totaling \$8,480,000 for land development restrictions, school construction and debt refunding.

Additional information on the Town's long-term debt can be found in Note 9 on pages 44-45 of this report.

Economic Factors and Next Year's Budgets and Rates

The fiscal year 2012 projection for general fund revenues currently stands at \$79.7 million. Property taxes remain the primary source of revenue for the Town. Property taxes in Massachusetts are limited by 'Proposition 2 ½' to a levy growth of 2.5% plus a value for new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. The last override approved by Sudbury taxpayers was for \$2.5 million or 4.7% more than the normal levy for fiscal year 2008. Since then, the Town has operated without the additional revenues from an override.

State aid (which includes Chapter 70 school reimbursement, general assistance and a dwindling number of other distributions or offsets) represents our second largest source of revenue. This type of revenue is distributed to municipalities based on a variety of formulas and metrics. As of the printing of this report, the State has not made any midyear cuts in fiscal year 2012 local aid. While communities throughout the Commonwealth remain concerned about national and local economic conditions, we see no indication that the State will need to authorize any cutbacks due to a deficiency in current fiscal year revenues. Furthermore we remain cautiously optimistic that State aid revenues will hold steady during the next budget cycle.

Non-tax revenues continue to decline. Local receipts (e.g. motor vehicle excise, departmental revenues, licensing and permits) are considered elastic revenues meaning that they are sensitive to the economy and tend to fluctuate accordingly over time. Up until fiscal year 2005, local receipts remained relatively stable. Our largest segment, motor vehicle excise, provided 2-3% growth in revenues year to year. However, since what has been called the great recession or lesser depression began in December 2007, the entire country has been in a deep economic crisis. In fiscal year 2009, Sudbury's local receipts tumbled more than \$600,000 or nearly 13% from the prior year. Of late, Massachusetts's economy along with the Nation's is showing signs of slowing. Much in fiscal year 2013 will depend on how well the State fares with proposed federal spending reductions and a worsening European debt crisis. For now we are seeing slight improvements locally that suggest our projections for local receipts will remain in the range of \$3.5 to \$3.7 million as we head into the fiscal year 2013 budget season.

For fiscal year 2012, the Town's general fund budget for expenses also stands at \$79.7 million (including all town, school and shared expenses). The budget is allocated across four major cost centers (in descending order of relative size of operating resources: Sudbury Public Schools, Town Services, Lincoln-Sudbury Regional High School, and capital budget) with the rest providing for shared expenses and other charges to be raised. Our largest segments of annual operating expenditures consist of salaries, wages and employee benefits. Another primary use of operating funds goes to fixed costs or charges. These costs commonly exist in the form of service contracts, utilities, fuel, leases and insurances. They are all recurring costs that generally increase annually due to economic and inflationary factors.

Sudbury's residents have very high expectations of the level and quality of public services. From an operational standpoint, the town government and schools have struggled to maintain the enduring tradition of meeting the changing needs of community given the local economy, State and Federal mandates and influences, and other factors that dictate we operate increasingly in an environment of doing more (operating costs) with less (non-tax revenues) delivering high quality services.

The budget outlook for fiscal year 2013 remains cautiously optimistic. We face several challenges on both sides of the structural budget deficit equation. In addition to any political and social dimensions that may influence how a municipality addresses these challenges, there are hundreds if not thousands of regulations to consider. In particular, the soon to be released stormwater permit regulations from the EPA could contain expensive requirements that Sudbury will need to find new funding in order to comply. On the other hand, the State Legislature and Governor enacted new legislation which enables towns such as Sudbury to renegotiate costly health insurance with unions on an expedited basis in order to obtain significant savings.

Management continues to take steps to protect the Town's long-term financial stability. The financial policies of the Town require making prudent decisions not only to meet today's challenges but also to secure the Town for the future. The key to maintaining our excellent financial health and top credit rating is to continue to make decisions with multi-year sustainability in mind. Despite all of the hurdles, both elected and appointed Town and School officials are working to protect all of what makes Sudbury such an attractive, vibrant place to live, teach, play, invest, learn, share, grow, and work. Ideas for closing the revenue-expense gap are actively explored and implemented where feasible.

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 its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 278 Old Sudbury Road, Sudbury, Massachusetts 01776.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 6,506,091	\$ 485,382	\$ 6,991,473
Restricted cash and cash equivalents.....	8,482,370	-	8,482,370
Investments.....	2,272,526	-	2,272,526
Restricted investments.....	17,190,535	-	17,190,535
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	937,437	-	937,437
Tax liens.....	740,109	-	740,109
Motor vehicle and other excise taxes.....	168,805	-	168,805
Community preservation surcharges.....	19,990	-	19,990
Departmental and other.....	231,622	11,000	242,622
Intergovernmental.....	1,163,199	-	1,163,199
Working capital deposit.....	737,000	-	737,000
Total current assets.....	38,449,684	496,382	38,946,066
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	2,156,750	-	2,156,750
Intergovernmental.....	12,101,304	-	12,101,304
Tax foreclosures.....	199,071	-	199,071
Investment in joint venture.....	287,664	-	287,664
Capital assets not being depreciated.....	34,952,831	192,500	35,145,331
Capital assets, net of accumulated depreciation.....	55,275,044	472,301	55,747,345
Total noncurrent assets.....	104,972,664	664,801	105,637,465
Total assets.....	143,422,348	1,161,183	144,583,531
LIABILITIES			
Current liabilities:			
Warrants payable.....	776,865	49,154	826,019
Accrued payroll.....	2,230,203	7,369	2,237,572
Tax refunds payable.....	236,111	-	236,111
Other liabilities.....	1,123,783	-	1,123,783
Accrued interest.....	139,827	-	139,827
Accrued health claims payable.....	614,003	-	614,003
Capital lease obligations.....	237,499	-	237,499
Workers' compensation claims.....	89,948	-	89,948
Compensated absences.....	59,155	2,091	61,246
Short-term notes payable.....	220,000	-	220,000
Long-term bonds and notes payable.....	3,790,000	-	3,790,000
Total current liabilities.....	9,517,394	58,614	9,576,008
Noncurrent liabilities:			
Capital lease obligations.....	359,582	-	359,582
Compensated absences.....	532,395	18,825	551,220
Net OPEB obligation.....	7,996,842	105,098	8,101,940
Long-term bonds and notes payable.....	31,970,000	-	31,970,000
Total noncurrent liabilities.....	40,858,819	123,923	40,982,742
Total liabilities.....	50,376,213	182,537	50,558,750
NET ASSETS			
Invested in capital assets, net of related debt.....	55,452,411	664,801	56,117,212
Restricted for:			
Investment in joint venture.....	287,664	-	287,664
Employee benefits.....	6,779,627	-	6,779,627
Community preservation.....	8,640,698	-	8,640,698
Affordable housing.....	820,046	-	820,046
Permanent funds:			
Expendable.....	304,461	-	304,461
Nonexpendable.....	1,013,539	-	1,013,539
Other specific purposes.....	6,077,039	-	6,077,039
Unrestricted.....	13,670,650	313,845	13,984,495
Total net assets.....	\$ 93,046,135	\$ 978,646	\$ 94,024,781

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/ Revenue
Primary government:					
Governmental activities:					
General government.....	\$ 4,428,038	\$ 594,722	\$ 167,066	\$ -	\$ (3,666,250)
Public safety.....	10,073,036	1,135,413	181,904	-	(8,755,719)
Education.....	66,646,480	1,925,602	12,038,343	1,000	(52,681,535)
Public works.....	5,325,052	76,171	142,245	440,096	(4,666,540)
Health and human services.....	1,167,143	176,174	36,378	-	(954,591)
Culture and recreation.....	2,520,748	758,157	262,598	451,234	(1,048,759)
Debt service - interest.....	1,476,258	-	993,234	-	(483,024)
Total governmental activities.....	91,636,755	4,666,239	13,821,768	892,330	(72,256,418)
Business-type activities:					
Swimming pool.....	550,289	487,165	339	-	(62,785)
Transfer station.....	271,114	362,895	694	-	92,475
Recreation field maintenance.....	192,249	183,741	235	-	(8,273)
Total business-type activities.....	1,013,652	1,033,801	1,268	-	21,417
Total primary government.....	\$ 92,650,407	\$ 5,700,040	\$ 13,823,036	\$ 892,330	\$ (72,235,001)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/ revenue (from previous page).....	\$ (72,256,418)	\$ 21,417	\$ (72,235,001)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens.....	67,178,824	-	67,178,824
Motor vehicle and other excise taxes.....	2,886,859	-	2,886,859
Penalties and interest on taxes.....	204,686	-	204,686
Payments in lieu of taxes.....	64,515	-	64,515
Community preservation surcharges.....	1,492,938	-	1,492,938
Grants and contributions not restricted to specific programs.....	1,238,505	-	1,238,505
Unrestricted investment income.....	175,476	-	175,476
Transfers, net	29,595	(29,595)	-
Total general revenues and transfers.....	73,271,398	(29,595)	73,241,803
Change in net assets.....	1,014,980	(8,178)	1,006,802
Net assets - beginning of year.....	92,031,155	986,824	93,017,979
Net assets - end of year.....	\$ 93,046,135	\$ 978,646	\$ 94,024,781

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	General	Community Preservation	Affordable Housing	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 6,506,091	\$ -	\$ -	\$ -	\$ 6,506,091
Investments.....	2,272,526	-	-	-	2,272,526
Receivables, net of allowance for uncollectible amounts:					
Real estate and personal property taxes.....	937,437	-	-	-	937,437
Real estate tax deferrals.....	2,156,750	-	-	-	2,156,750
Tax liens.....	740,109	-	-	-	740,109
Motor vehicle and other excise taxes.....	168,805	-	-	-	168,805
Community preservation surcharges.....	-	19,990	-	-	19,990
Departmental and other.....	-	-	-	231,622	231,622
Intergovernmental.....	13,217,175	-	-	47,328	13,264,503
Tax foreclosures.....	199,071	-	-	-	199,071
Working capital deposit.....	737,000	-	-	-	737,000
Restricted assets:					
Cash and cash equivalents.....	496,179	6,046	357,369	7,622,776	8,482,370
Investments.....	6,651,691	8,617,726	462,677	1,458,441	17,190,535
TOTAL ASSETS.....	\$ 34,082,834	\$ 8,643,762	\$ 820,046	\$ 9,360,167	\$ 52,906,809
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 311,959	\$ -	\$ -	\$ 464,906	\$ 776,865
Accrued payroll.....	2,230,203	-	-	-	2,230,203
Tax refunds payable.....	236,111	-	-	-	236,111
Other liabilities.....	1,047,714	3,064	-	73,005	1,123,783
Deferred revenue.....	17,009,824	19,990	-	278,950	17,308,764
Accrued health claims payable.....	614,003	-	-	-	614,003
Workers' compensation claims.....	89,948	-	-	-	89,948
Short-term notes payable.....	-	-	-	220,000	220,000
TOTAL LIABILITIES.....	21,539,762	23,054	-	1,036,861	22,599,677
FUND BALANCES:					
Nonspendable.....	-	-	-	1,013,539	1,013,539
Restricted.....	6,779,627	8,620,708	820,046	7,244,146	23,464,527
Committed.....	231,092	-	-	65,621	296,713
Assigned.....	1,570,833	-	-	-	1,570,833
Unassigned.....	3,961,520	-	-	-	3,961,520
TOTAL FUND BALANCES.....	12,543,072	8,620,708	820,046	8,323,306	30,307,132
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 34,082,834	\$ 8,643,762	\$ 820,046	\$ 9,360,167	\$ 52,906,809

See notes to basic financial statements.

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

	General	Community Preservation	Affordable Housing	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real estate and personal property taxes.....	\$ 66,299,399	\$ -	\$ -	\$ -	\$ 66,299,399
Motor vehicle and other excise taxes.....	2,824,879	-	-	-	2,824,879
Tax liens.....	330,168	-	-	-	330,168
Payments in lieu of taxes.....	64,515	-	-	-	64,515
Community preservation surcharges.....	-	1,494,706	-	-	1,494,706
Charges for services.....	-	-	-	679,786	679,786
Intergovernmental	12,319,275	431,234	-	3,600,466	16,350,975
Penalties and interest on taxes.....	204,686	-	-	-	204,686
Licenses and permits.....	429,384	-	-	82,153	511,537
Fines and forfeitures.....	77,551	-	-	13,921	91,472
Departmental and other.....	264,817	-	94,238	3,013,920	3,372,975
Contributions.....	-	-	-	208,744	208,744
Investment income.....	221,586	160,489	3,745	162,732	548,552
TOTAL REVENUES.....	83,036,260	2,086,429	97,983	7,761,722	92,982,394
EXPENDITURES					
Current:					
General government.....	2,845,812	2,938,168	-	364,865	6,148,845
Public safety.....	6,666,121	-	-	341,725	7,007,846
Education.....	47,838,582	-	-	4,871,444	52,710,026
Public works.....	3,715,135	154,492	-	864,796	4,734,423
Health and human services.....	507,899	-	227,401	117,883	853,183
Culture and recreation.....	1,162,489	95,133	-	819,068	2,076,690
Pension benefits.....	7,877,511	-	-	-	7,877,511
Employee benefits.....	7,173,083	-	-	-	7,173,083
Property and liability insurance.....	213,481	-	-	-	213,481
State and county charges.....	192,672	-	-	-	192,672
Debt service:					
Principal.....	3,155,000	685,000	-	-	3,840,000
Interest.....	1,025,354	367,035	-	-	1,392,389
TOTAL EXPENDITURES.....	82,373,139	4,239,828	227,401	7,379,781	94,220,149
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	663,121	(2,153,399)	(129,418)	381,941	(1,237,755)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	458,684	-	180,000	90,000	728,684
Proceeds of bonds and notes.....	-	2,030,000	-	1,580,000	3,610,000
Premium from issuance of bonds and notes.....	-	1,555	-	-	1,555
Proceeds of refunding bonds.....	-	-	-	4,870,000	4,870,000
Premium from issuance of refunding bonds.....	-	-	-	270,580	270,580
Proceeds from capital leases.....	226,104	-	-	-	226,104
Transfers out.....	(90,000)	(180,000)	-	(429,089)	(699,089)
Refunded bonds redeemed.....	-	-	-	(5,085,000)	(5,085,000)
TOTAL OTHER FINANCING SOURCES (USES).....	594,788	1,851,555	180,000	1,296,491	3,922,834
NET CHANGE IN FUND BALANCES.....	1,257,909	(301,844)	50,582	1,678,432	2,685,079
FUND BALANCES AT BEGINNING OF YEAR.....	11,285,163	8,922,552	769,464	6,644,874	27,622,053
FUND BALANCES AT END OF YEAR.....	\$ 12,543,072	\$ 8,620,708	\$ 820,046	\$ 8,323,306	\$ 30,307,132

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances (page 18).....	\$ 30,307,132
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	90,227,875
The equity interest in the assets of the governmental joint venture is not reported in the governmental funds.....	287,664
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	17,308,764
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....	(139,827)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and notes payable.....	(35,760,000)
Capital lease obligations.....	(597,081)
Compensated absences.....	(591,550)
Net OPEB obligation.....	<u>(7,996,842)</u>
Net assets of governmental activities (page 15).....	<u>\$ 93,046,135</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds (page 19).....	\$ 2,685,079
The statement of activities reports the investment in joint venture however the governmental funds do not. This amount represents the net change in the investment in joint venture.....	(344,519)
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. These amounts represent the related activity of the current period.	
Capital outlays.....	4,314,969
Depreciation.....	(2,981,050)
Contributed capital assets are reported in the statement of activities as capital contributions, but are not reported in the governmental funds.....	20,000
In the statement of activities, the <i>gain</i> or <i>loss</i> on the disposal of capital assets is reported, whereas in the governmental funds, the disposal is not reported. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.....	(51,707)
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.....	(307,872)
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 impact 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. These amounts represent the related activity of the current period.	
Bond proceeds.....	(3,610,000)
Proceeds of refunding bonds.....	(4,870,000)
Refunded bonds redeemed.....	5,085,000
Bond maturities.....	3,840,000
Amortization of deferred losses on refundings.....	(91,451)
Capital lease proceeds.....	(226,104)
Capital lease maturities.....	259,309
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....	7,583
Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:	
Compensated absences.....	1,510
Net OPEB obligation.....	(2,715,767)
Changes in net assets of governmental activities (page 17).....	\$ <u>1,014,980</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			
	Swimming Pool (Nonmajor)	Transfer Station (Nonmajor)	Recreation Field Maintenance (Nonmajor)	Total
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 116,351	\$ 290,857	\$ 78,174	\$ 485,382
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	11,000	-	11,000
Total current assets.....	116,351	301,857	78,174	496,382
Noncurrent assets:				
Capital assets not being depreciated.....	-	192,500	-	192,500
Capital assets, net of accumulated depreciation.....	472,301	-	-	472,301
Total noncurrent assets.....	472,301	192,500	-	664,801
Total assets.....	588,652	494,357	78,174	1,161,183
LIABILITIES				
Current liabilities:				
Warrants payable.....	7,615	18,358	23,181	49,154
Accrued payroll.....	3,195	2,016	2,158	7,369
Compensated absences.....	1,723	368	-	2,091
Total current liabilities.....	12,533	20,742	25,339	58,614
Noncurrent liabilities:				
Compensated absences.....	15,512	3,313	-	18,825
Net OPEB obligation.....	74,409	26,468	4,221	105,098
Total noncurrent liabilities.....	89,921	29,781	4,221	123,923
Total liabilities.....	102,454	50,523	29,560	182,537
NET ASSETS				
Invested in capital assets, net of related debt.....	472,301	192,500	-	664,801
Unrestricted.....	13,897	251,334	48,614	313,845
Total net assets.....	\$ 486,198	\$ 443,834	\$ 48,614	\$ 978,646

See notes to basic financial statements.

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

	Business-Type Activities - Enterprise Funds			
	Swimming Pool (Nonmajor)	Transfer Station (Nonmajor)	Recreation Field Maintenance (Nonmajor)	Total
OPERATING REVENUES				
Charges for services.....	\$ 487,166	\$ 362,894	\$ 183,741	\$ 1,033,801
OPERATING EXPENSES				
Cost of service and administration.....	468,143	252,886	83,906	804,935
Repairs and maintenance.....	50,999	18,228	108,343	177,570
Depreciation.....	31,147	-	-	31,147
TOTAL OPERATING EXPENSES.....	550,289	271,114	192,249	1,013,652
OPERATING INCOME (LOSS).....	(63,123)	91,780	(8,508)	20,149
NONOPERATING REVENUES (EXPENSES)				
Investment income.....	339	694	235	1,268
INCOME (LOSS) BEFORE TRANSFERS.....	(62,784)	92,474	(8,273)	21,417
TRANSFERS				
Transfers out.....	-	(29,595)	-	(29,595)
CHANGE IN NET ASSETS.....	(62,784)	62,879	(8,273)	(8,178)
NET ASSETS AT BEGINNING OF YEAR.....	548,982	380,955	56,887	986,824
NET ASSETS AT END OF YEAR.....	\$ 486,198	\$ 443,834	\$ 48,614	\$ 978,646

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds			
	Swimming Pool (Nonmajor)	Transfer Station (Nonmajor)	Recreation Field Maintenance (Nonmajor)	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users.....	\$ 487,166	\$ 359,544	\$ 183,741	\$ 1,030,451
Payments to vendors.....	(206,704)	(162,573)	(124,514)	(493,791)
Payments to employees.....	(288,012)	(107,635)	(43,039)	(438,686)
NET CASH FROM OPERATING ACTIVITIES.....	(7,550)	89,336	16,188	97,974
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out.....	-	(29,595)	-	(29,595)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income.....	339	694	235	1,268
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(7,211)	60,435	16,423	69,647
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	123,562	230,422	61,751	415,735
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 116,351	\$ 290,857	\$ 78,174	\$ 485,382
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss).....	\$ (63,123)	\$ 91,780	\$ (8,508)	\$ 20,149
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Adjustments not requiring current cash flows:				
Depreciation.....	31,147	-	-	31,147
Net OPEB obligation.....	26,927	9,823	4,221	40,971
Adjustments requiring current cash flows:				
Departmental and other.....	-	(3,350)	-	(3,350)
Warrants payable.....	(1,181)	(5,865)	18,575	11,529
Accrued payroll.....	(3,391)	(3,538)	1,900	(5,029)
Compensated absences.....	2,071	486	-	2,557
Total adjustments.....	55,573	(2,444)	24,696	77,825
NET CASH FROM OPERATING ACTIVITIES.....	\$ (7,550)	\$ 89,336	\$ 16,188	\$ 97,974

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

ASSETS	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 149,477	\$ 376,575
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	<u>-</u>	<u>78,242</u>
Total assets.....	<u>149,477</u>	<u>454,817</u>
 LIABILITIES		
Liabilities due depositors.....	<u>-</u>	<u>454,817</u>
 NET ASSETS		
Held in trust for other purposes.....	<u>\$ 149,477</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 9,933
Net investment income:	
Net appreciation/(depreciation) in fair value of investments.....	6,302
Interest.....	<u>10,160</u>
Total investment income (loss).....	<u>16,462</u>
TOTAL ADDITIONS.....	26,395
DEDUCTIONS	
Scholarships awarded.....	885
Other.....	<u>6,722</u>
TOTAL DEDUCTIONS.....	<u>7,607</u>
CHANGE IN NET ASSETS.....	18,788
NET ASSETS AT BEGINNING OF YEAR.....	<u>130,689</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 149,477</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Sudbury, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Wayland-Sudbury Septage Disposal Facility (Facility)

The Town is a participant in a joint venture with the Town of Wayland for a septage disposal facility (Facility). Each Town has a 50 percent interest in the venture. The Facility was decommissioned in October 2009 and its operations were ceased as of December 1, 2009. All further administrative actions relative to the Facility are now the responsibility of the Boards of Selectmen of the Towns of Wayland and Sudbury. As of June 30, 2011, there had been no equity distributions of the Facility's net assets to either Town and the joint venture agreement had not been formally dissolved. The joint venture agreement is scheduled to end on normal terms in 2017. The Town of Sudbury continues to serve as the custodian of the Facility's cash and accounts receivable, which are reported in the Agency Fund. As of June 30, 2011, the Town's equity interest in the operation of the Facility totaled \$287,664 and is reported in governmental activities. The balance decreased from prior fiscal years, primarily as a result of depreciation of the Facility's capital assets.

Lincoln Sudbury Regional High School District (LSRHSD)

The LSRHSD is governed by a six member school district committee consisting of three elected representatives of the Town. The Town is indirectly liable for the LSRHSD debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2011, the Town's assessment totaled \$19,814,525. Separate financial statements may be obtained by writing to the Treasurer of the LSRHSD at 390 Lincoln Road, Sudbury, MA 01776.

Minuteman Regional High School (MRHS)

The MRHS is governed by a seventeen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the MRHS debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2011, the Town's assessment totaled \$195,498. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, MA 02421-7313.

C. Implementation of New Accounting Principles

For the year ending June 30, 2011, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 59, *Financial Instruments Omnibus*

GASB Statement No. 54 established standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund, capital projects fund, debt service fund, and permanent fund types are clarified by the provisions in this Statement.

The implementation of GASB Statement No. 57 and Statement No. 59 had no reporting impact for the Town.

D. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column. Fiduciary funds are reported by fund type.

E. Measurement Focus, Basis of Accounting and Basis of PresentationGovernment-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, capital lease obligations, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low-income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *affordable housing fund* is a special revenue fund (established in accordance with MGL, Chapter 44, Section 55C) used to provide for the creation and preservation of affordable housing within the Town.

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

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

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Proprietary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded 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 the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following nonmajor proprietary funds are reported:

The *swimming pool enterprise fund* is used to account for recreational swimming pool activities.

The *transfer station enterprise fund* is used to account for transfer station activities.

The *recreation field maintenance enterprise fund* is used to account for recreation field maintenance activities.

Fiduciary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist primarily of performance bonds, bid deposits and cash receipt collections for the Facility. Agency funds do not present the results of operations or have a measurement focus.

F. Deposits and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Real Estate Tax Deferrals, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 1st, November 1st, February 1st, and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Departmental and Other

Departmental and other receivables primarily represent amounts due for ambulance services, Facility services and police details and are recorded as receivables in the fiscal year accrued.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

H. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2011, the allowance for uncollectible amounts for departmental and other receivables is immaterial and therefore not reported.

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

- Real estate taxes and real estate tax deferrals
- Tax liens
- Community preservation surcharges

Intergovernmental receivables are considered 100% collectible.

I. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

J. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, intangible assets, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

Capital Asset Type	Estimated Useful Life (in years)
Land improvements.....	30
Buildings and improvements.....	10 - 40
Machinery and equipment.....	5 - 20
Vehicles.....	4 - 20
Infrastructure.....	20

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

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

L. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

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

N. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

*O. Net Assets and Fund Balances*Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Investment in joint venture" represents the Town's equity interest in the operation of the Facility.

"Employee benefits" represents amounts accumulated for self-insurance activities.

"Community preservation" represents amounts restricted for affordable housing, open space and historic purposes.

"Affordable housing" represents amounts restricted (in accordance with MGL, Chapter 44, Section 55C) for the creation and preservation of affordable housing within the Town.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

Q. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from proprietary funds is retained in the funds.

R. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Funds Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

S. Post Retirement BenefitsGovernment-Wide and Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 11, the Town provides health, dental and life insurance coverage for current and future retirees and their spouses.

T. Use of EstimatesGovernment-Wide and Fund Financial Statements

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

U. Total ColumnGovernment-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Increases to the original budget subsequent to Annual Town Meeting require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget for the general fund authorized \$78,300,166 in appropriations and other amounts to be raised.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and private purpose trust funds are held separately from other town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for custodial credit risk is to rely on FDIC and DIF insurance coverage. As of June 30, 2011, \$6,737,361 of the Town's bank balance of \$12,859,131 was uninsured, uncollateralized and exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2011 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 160,894	\$ 101,094	\$ 59,800	\$ -	\$ -
U.S. Agencies.....	3,553,925	-	2,687,078	866,847	-
Corporate bonds.....	3,125,442	3,125,442	-	-	-
Money market mutual funds.....	3,271,280	3,271,280	-	-	-
Mutual bond funds.....	719,036	719,036	-	-	-
External investment pools.....	212,503	212,503	-	-	-
Total debt securities.....	11,043,080	<u>\$ 7,429,355</u>	<u>\$ 2,746,878</u>	<u>\$ 866,847</u>	<u>\$ -</u>
<u>Other Investments:</u>					
Certificates of deposit.....	11,181,737				
Equity mutual funds.....	730,153				
Total other investments.....	11,911,890				
Total investments.....	\$ 22,954,970				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town's policy for interest rate risk of debt securities is to follow the municipal finance laws of the Commonwealth, which requires (with the exception of certain trust funds) the Town to limit investments to U.S. backed securities with a maturity of one year or less.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2011, the Town's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities.

As of June 30, 2011, the quality ratings of the Town's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings			
		AAA (1)	5-Star (2)	4-Star (3)	Unrated
Corporate bonds.....	\$ 3,125,442	\$ 3,125,442	\$ -	\$ -	\$ -
Money market mutual funds.....	3,271,280	-	-	2,546,422	724,858
Mutual bond funds.....	719,036	-	255,950	463,086	-
External investment pools.....	212,503	-	-	-	212,503
Total.....	\$ 7,328,261	\$ 3,125,442	\$ 255,950	\$ 3,009,508	\$ 937,361

- (1) Per the rating scale of Standard and Poor's (a national credit rating organization)
- (2) Per the rating scale of Morningstar (an investment research firm)
- (3) Per the rating scales of Morningstar and Bauer Financial (an independent banking rating firm)

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2011, the Town was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2011, the Town was not exposed to concentration of credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2011, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 990,973	\$ (53,536)	\$ 937,437
Real estate tax deferrals.....	2,156,750	-	2,156,750
Tax liens.....	740,109	-	740,109
Motor vehicle and other excise taxes.....	205,532	(36,727)	168,805
Community preservation surcharges.....	19,990	-	19,990
Departmental and other.....	309,864	-	309,864
Intergovernmental.....	13,264,503	-	13,264,503
	<u>\$ 17,687,721</u>	<u>\$ (90,263)</u>	<u>\$ 17,597,458</u>

At June 30, 2011, receivables for the transfer station enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Departmental and other.....	\$ 11,000	\$ -	\$ 11,000

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

Receivable type:	General Fund	Other Governmental Funds	Total
Real estate and personal property taxes.....	\$ 527,914	\$ -	\$ 527,914
Real estate tax deferrals.....	2,156,750	-	2,156,750
Tax liens.....	740,109	-	740,109
Motor vehicle and other excise taxes.....	168,805	-	168,805
Community preservation surcharges.....	-	19,990 (a)	19,990
Departmental and other.....	-	231,622 (b)	231,622
Intergovernmental (state school construction).....	13,135,757	-	13,135,757
Intergovernmental (other state and federal).....	81,418	47,328 (b)	128,746
Tax foreclosures.....	199,071	-	199,071
Total.....	<u>\$ 17,009,824</u>	<u>\$ 298,940</u>	<u>\$ 17,308,764</u>

(a) Community preservation major fund

(b) Nonmajor governmental funds

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, approximately \$1,703,000 of such assistance was received. \$16,812,240 will be received in future fiscal years. Of this amount, \$3,676,483 represents reimbursement of long-term interest costs, and \$13,135,757 represents reimbursement of approved construction costs. Accordingly, a \$13,135,757 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 26,585,701	\$ 48,400	\$ -	\$ 26,634,101
Intangible assets.....	5,545,000	2,773,730	-	8,318,730
Total capital assets not being depreciated.....	32,130,701	2,822,130	-	34,952,831
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,516,461	-	-	2,516,461
Buildings and improvements.....	67,615,979	58,866	-	67,674,845
Machinery and equipment.....	7,263,167	408,418	(214,794)	7,456,791
Vehicles.....	3,369,848	106,446	(323,524)	3,152,770
Infrastructure.....	13,491,692	939,109	-	14,430,801
Total capital assets being depreciated.....	94,257,147	1,512,839	(538,318)	95,231,668
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(699,644)	(71,382)	-	(771,026)
Buildings and improvements.....	(21,357,080)	(1,688,707)	-	(23,045,787)
Machinery and equipment.....	(5,035,602)	(394,471)	189,965	(5,240,108)
Vehicles.....	(2,615,478)	(225,888)	296,646	(2,544,720)
Infrastructure.....	(7,754,381)	(600,602)	-	(8,354,983)
Total accumulated depreciation.....	(37,462,185)	(2,981,050)	486,611	(39,956,624)
Total capital assets being depreciated, net.....	56,794,962	(1,468,211)	(51,707)	55,275,044
Total governmental activities capital assets, net.....	\$ 88,925,663	\$ 1,353,919	\$ (51,707)	\$ 90,227,875

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 192,500	\$ -	\$ -	\$ 192,500
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	1,160,406	-	-	1,160,406
Machinery and equipment.....	13,564	-	-	13,564
Vehicles.....	136,640	-	-	136,640
Total capital assets being depreciated.....	1,310,610	-	-	1,310,610
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(666,453)	(29,791)	-	(696,244)
Machinery and equipment.....	(4,069)	(1,356)	-	(5,425)
Vehicles.....	(136,640)	-	-	(136,640)
Total accumulated depreciation.....	(807,162)	(31,147)	-	(838,309)
Total capital assets being depreciated, net.....	503,448	(31,147)	-	472,301
Total business-type activities capital assets, net.....	\$ 695,948	\$ (31,147)	\$ -	\$ 664,801

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

Governmental Activities:

General government.....	\$ 130,758
Public safety.....	327,096
Education.....	1,317,364
Public works.....	1,033,012
Health and human services.....	18,577
Culture and recreation.....	154,243

Total depreciation expense - governmental activities..... \$ 2,981,050

Business-Type Activities:

Swimming pool.....	\$ 31,147
--------------------	-----------

NOTE 6 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:			
	General Fund	Affordable Housing Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ -	\$ 90,000	\$ 90,000 (1)
Community Preservation Fund.....	-	180,000	-	180,000 (2)
Nonmajor Governmental Funds.....	429,089	-	-	429,089 (3)
Transfer Station Enterprise Fund.....	29,595	-	-	29,595 (4)
	<u>\$ 458,684</u>	<u>\$ 180,000</u>	<u>\$ 90,000</u>	<u>\$ 728,684</u>

(1) Represents budgeted transfer to the wastewater feasibility study capital projects fund

(2) Represents budgeted transfer to the affordable housing fund

(3) Represents budgeted transfer from the ambulance receipts reserved special revenue fund to fund the fiscal year 2011 operating budget

(4) Represents budgeted transfer of indirect costs

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, is as follows:

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
BAN Land Acquisition.....		12/15/09	07/02/10	1.65%	\$ 420,000	\$ -	\$ (420,000)	\$ -
BAN School Construction.....		6/22/11	12/22/11	0.90%	-	1,800,000	(1,580,000)	220,000
Total.....					\$ 420,000	\$ 1,800,000	\$ (2,000,000)	\$ 220,000

Subsequent Event

On December 22, 2011, the Town issued \$1,580,000 of general obligation bonds. This amount was used to retire a portion of the BAN outstanding at June 30, 2011 for school construction. Accordingly, \$1,580,000 is recorded as a long term debt obligation at June 30, 2011.

On December 22, 2011, the Town paid down \$220,000 of the school construction BAN from available funds.

NOTE 8 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Governmental Activities:					
Bonds and notes payable (net).....	\$ 36,113,549	\$ 8,480,000	\$ (8,833,549)	\$ 35,760,000	\$ 3,790,000
Capital lease obligations.....	630,286	226,104	(259,309)	597,081	237,499
Net OPEB obligation.....	5,281,075	3,548,537	(832,770)	7,996,842	-
Compensated absences.....	593,060	-	(1,510)	591,550	59,155
Total.....	<u>\$ 42,617,970</u>	<u>\$ 12,254,641</u>	<u>\$ (9,927,138)</u>	<u>\$ 44,945,473</u>	<u>\$ 4,086,654</u>
Business-type Activities:					
Net OPEB obligation.....	\$ 64,127	\$ 53,534	\$ (12,563)	\$ 105,098	\$ -
Compensated absences.....	18,359	2,557	-	20,916	2,091
Total.....	<u>\$ 82,486</u>	<u>\$ 56,091</u>	<u>\$ (12,563)</u>	<u>\$ 126,014</u>	<u>\$ 2,091</u>

Except for bonds issued for the community preservation fund, long-term liabilities of governmental activities are generally liquidated by the general fund. Long-term debt issued for the community preservation fund is liquidated by the community preservation fund.

NOTE 9 - LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Additions	Reductions	Outstanding at June 30, 2011
School Construction.....	5.00	\$ 331,790	\$ -	\$ (331,790)	\$ -
School Construction.....	5.00	933,210	-	(933,210)	-
School Construction.....	4.44	5,631,000	-	(5,631,000)	-
Municipal Purpose.....	4.00	20,000	-	(20,000)	-
Municipal Purpose.....	4.00	14,000	-	(14,000)	-
Municipal Purpose.....	4.00	20,000	-	(20,000)	-
Land Acquisition Refunding.....	3.50	110,000	-	(110,000)	-
School & Public Works Construction.....	2.89	1,575,000	-	(525,000)	1,050,000
Land Acquisition.....	4.18	3,530,000	-	(295,000)	3,235,000
School Construction Refunding.....	3.81	13,400,000	-	(175,000)	13,225,000
Land Acquisition Refunding.....	3.60	3,865,000	-	(480,000)	3,385,000
Municipal Purpose.....	3.93	1,985,000	-	(135,000)	1,850,000
Land Development Rights.....	2.00 - 4.00	4,790,000	-	(255,000)	4,535,000
Land Development Rights.....	2.00 - 4.00	-	2,030,000	-	2,030,000
School Construction Refunding.....	2.00 - 4.00	-	4,870,000	-	4,870,000
School Construction.....	2.00 - 3.00	-	1,580,000	-	1,580,000
Sub-total.....		36,205,000	8,480,000	(8,925,000)	35,760,000
Deferred loss on refundings.....		(91,451)	-	91,451	-
Total governmental funds (net).....		\$ 36,113,549	\$ 8,480,000	\$ (8,833,549)	\$ 35,760,000

During fiscal year 2011, the Town issued \$2,030,000 of general obligation bonds for land development rights. In addition, the Town issued \$1,580,000 of general obligation bonds on December 22, 2011 for school construction. This amount was used to retire BANs outstanding at June 30, 2011. Accordingly, \$1,580,000 is recorded as a long term debt obligation at June 30, 2011.

Debt service requirements for principal and interest for governmental bonds and notes payable (gross) in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2012.....	\$ 3,790,000	\$ 1,260,996	\$ 5,050,996
2013.....	3,820,000	1,131,352	4,951,352
2014.....	3,260,000	1,014,907	4,274,907
2015.....	3,185,000	900,580	4,085,580
2016.....	3,065,000	786,546	3,851,546
2017.....	2,985,000	675,553	3,660,553
2018.....	2,965,000	561,971	3,526,971
2019.....	2,705,000	456,234	3,161,234
2020.....	2,770,000	361,180	3,131,180
2021.....	2,835,000	228,920	3,063,920
2022.....	870,000	154,068	1,024,068
2023.....	715,000	123,333	838,333
2024.....	715,000	95,644	810,644
2025.....	480,000	67,527	547,527
2026.....	350,000	50,094	400,094
2027.....	350,000	37,875	387,875
2028.....	350,000	25,344	375,344
2029.....	350,000	12,500	362,500
2030.....	100,000	4,500	104,500
2031.....	100,000	1,500	101,500
Total.....	\$ 35,760,000	\$ 7,950,624	\$ 43,710,624

Current Refunding

On April 15, 2011, the Town issued \$4,870,000 in current refunding bonds to refund \$5,085,000 of previously issued outstanding school construction bonds with an average interest rate of approximately 4.4%. The average interest rate of the current refunding bonds is approximately 3.5%.

The net proceeds of approximately \$5,083,000 (after payment of approximately \$58,000 in bond issuance costs, plus premium of approximately \$271,000) plus an equity contribution of approximately \$119,000 were used to retire the outstanding bonds and the related accrued interest.

As a result of this refunding, the Town will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$591,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$518,000.

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2011, the Town had no authorized and unissued debt.

NOTE 10 - CAPITAL LEASES

The Town has entered into certain capital lease agreements for machinery and equipment and vehicles under which the assets will become the property of the Town when all terms of the lease agreements are met. The agreements also contain early purchase options which would allow the Town to purchase the assets before the end of the lease terms.

The following schedule presents future minimum lease payments as of June 30, 2011:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2012.....	\$ 266,016
2013.....	195,447
2014.....	142,876
2015.....	<u>48,897</u>
Total minimum lease payments.....	653,236
Less: amounts representing interest.....	<u>(56,155)</u>
Present value of minimum lease payments.....	\$ <u><u>597,081</u></u>

Machinery and equipment and vehicles and related accumulated amortization under capital lease are as follows:

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Machinery and equipment and vehicles.....	\$ 1,213,960
Less: accumulated amortization.....	<u>(853,076)</u>
Total.....	\$ <u><u>360,884</u></u>

Amortization of leased machinery and equipment and vehicles under capital assets is included with depreciation expense, which is allocated functionally.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description – The Town provides health, dental and life insurance coverage for its retirees and their survivors (hereinafter referred to as the “Plan”) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2009, the latest actuarial valuation, is as follows:

Active employees.....	469
Retired employees and spouses.....	<u>297</u>
Total.....	<u><u>766</u></u>

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health (including Medicare Part B) contribution rates of Plan members and the Town are 50%. The required dental insurance contribution rate of Plan members is 100%. The Plan members and the Town each contribute 50% towards a \$1,000 term life insurance premium. 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 (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table identifies the components of the Town's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town's net OPEB obligation:

	<u>Amount</u>
Annual required contribution.....	\$ 3,659,299
Interest on net OPEB obligation.....	140,742
Adjustment to annual required contribution.....	<u>(197,970)</u>
Annual OPEB cost.....	3,602,071
Contributions made.....	<u>(845,333)</u>
Increase in net OPEB obligation.....	2,756,738
Net OPEB obligation at beginning of year.....	<u>5,345,202</u>
Net OPEB obligation at end of year.....	<u><u>\$ 8,101,940</u></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, 2009*.....	\$ 3,341,000	23.1%	\$ 2,569,148
June 30, 2010.....	3,588,748	22.0%	5,345,202
June 30, 2011.....	3,602,071	23.5%	8,101,940

* Transition year

Funded Status and Funding Progress - The funded status of the Plan at July 1, 2009, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/09	\$ -	\$ 36,411,392	\$ 36,411,392	-	\$ 26,874,811	135.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year 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.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 actuarial valuation are as follows:

Valuation date:	July 1, 2009
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar
Remaining amortization period:	30 years at July 1, 2009 (open period)
Interest discount rate:	4.0%
Healthcare/Medical cost trend rate:	10.0% grading down to 5.0% in year 2014 and thereafter

Allocation of AOPEBC – AOPEBC costs were allocated to the Town's functions as follows:

Governmental Activities:

General government.....	\$ 215,209
Public safety.....	625,073
Education.....	2,349,093
Public works.....	203,713
Health and human services.....	46,301
Culture and recreation.....	109,148

Total AOPEBC - governmental activities.....	<u>3,548,537</u>
---	------------------

Business-Type Activities:

Swimming pool.....	35,184
Transfer station.....	12,835
Recreation field maintenance.....	<u>5,515</u>

Total AOPEBC - business-type activities.....	<u>53,534</u>
--	---------------

Total AOPEBC.....	<u>\$ 3,602,071</u>
-------------------	---------------------

NOTE 12 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town is self-insured for its health insurance, workers' compensation (excluding public safety employees injured on duty), and municipal building insurance activities. These activities are accounted for in the general fund.

A. Health Insurance

The estimated "Incurred But Not Reported (IBNR)" claims are based on actual and historical lag claims. The liability at June 30, 2011 totaled \$614,003. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2010.....	\$ 712,740	\$ 8,430,432	\$ (8,557,912)	\$ 585,260
Fiscal year 2011.....	585,260	8,085,564	(8,056,821)	614,003

B. Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town has recorded a liability of \$89,948 at June 30, 2011, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2010.....	\$ 164,562	\$ (9,758)	\$ (45,953)	\$ 108,851
Fiscal year 2011.....	108,851	64,514	(83,417)	89,948

C. Municipal Building Insurance

Municipal building insurance claims are immaterial at June 30, 2011 and, therefore, no liability is reported.

NOTE 13 - FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	Community Preservation	Affordable Housing	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 1,013,539	\$ 1,013,539
Restricted:					
Employee benefits.....	6,779,627	-	-	-	6,779,627
Community preservation.....	-	8,620,708	-	-	8,620,708
Affordable housing.....	-	-	820,046	-	820,046
Capital.....	-	-	-	1,144,187	1,144,187
Ambulance receipts reserved.....	-	-	-	875,902	875,902
General government.....	-	-	-	1,192,769	1,192,769
Public safety.....	-	-	-	219,413	219,413
Education.....	-	-	-	1,459,309	1,459,309
Public works.....	-	-	-	1,414,643	1,414,643
Health and human services.....	-	-	-	68,193	68,193
Culture and recreation.....	-	-	-	869,730	869,730
Sub-total - Restricted.....	6,779,627	8,620,708	820,046	7,244,146	23,464,527
Committed:					
Continuing appropriations.....	231,092	-	-	-	231,092
General government.....	-	-	-	53,247	53,247
Education.....	-	-	-	1,263	1,263
Public works.....	-	-	-	5,959	5,959
Culture and recreation.....	-	-	-	5,152	5,152
Sub-total - Committed.....	231,092	-	-	65,621	296,713
Assigned:					
Encumbrances.....	1,570,833	-	-	-	1,570,833
Unassigned.....	3,961,520	-	-	-	3,961,520
Total fund balance.....	\$ 12,543,072	\$ 8,620,708	\$ 820,046	\$ 8,323,306	\$ 30,307,132

NOTE 14 - STABILIZATION FUNDS

The Town maintains a general stabilization fund that was established under MGL Chapter 40, Section 5B. Appropriations in and out of the stabilization fund require two-thirds vote of Town meeting. Investment income is retained by the fund.

The balance of the stabilization fund at June 30, 2011 totals \$1,956,223 and is reported in the general fund as unassigned fund balance.

NOTE 15 - PRIOR PERIOD RECLASSIFICATIONS

The beginning fund balances of the general fund and stabilization fund have been restated from \$9,375,050 and \$1,910,113, respectively, to \$11,285,163 and \$0, respectively, to reflect the reclassification of the stabilization major fund to the general fund.

NOTE 16 - PENSION PLAN

Plan Description – The Town contributes to the Middlesex Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Middlesex Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, Massachusetts, 01865.

Funding Policy – Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll. The Town's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were \$2,789,175, \$2,670,190, and \$2,621,713, respectively, which equaled its required contribution for each fiscal year.

NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$5,030,000 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 18 - COMMITMENTS

The Town's significant commitments consist of the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$1,801,925 at June 30, 2011.

NOTE 19 - CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2011.

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 20 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented during fiscal year 2013. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented during fiscal year 2012. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which is required to be implemented during fiscal year 2012. The implementation of this Statement will not impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

This page left intentionally blank.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 66,989,630	\$ -	\$ 66,989,630
Motor vehicle and other excise taxes.....	-	2,559,551	-	2,559,551
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	57,494	-	57,494
Intergovernmental	-	7,208,774	-	7,208,774
Penalties and interest on taxes.....	-	175,000	-	175,000
Licenses and permits.....	-	410,033	-	410,033
Fines and forfeitures.....	-	75,000	-	75,000
Departmental and other.....	-	333,121	-	333,121
Investment income.....	-	42,661	-	42,661
TOTAL REVENUES.....	-	77,851,264	-	77,851,264
EXPENDITURES				
Current:				
General government.....	323,210	3,061,883	(202,420)	3,182,673
Public safety.....	134,251	6,742,558	-	6,876,809
Education.....	1,014,300	48,347,664	-	49,361,964
Public works.....	43,654	3,388,897	202,420	3,634,971
Health and human services.....	-	545,061	(9,999)	535,062
Culture and recreation.....	14,474	1,149,824	9,999	1,174,297
Pension benefits.....	-	2,851,124	-	2,851,124
Employee benefits.....	15,071	7,290,087	-	7,305,158
Property and liability insurance.....	-	218,822	-	218,822
State and county charges.....	-	233,892	-	233,892
Debt service:				
Principal.....	-	3,155,000	-	3,155,000
Interest.....	-	1,025,354	-	1,025,354
TOTAL EXPENDITURES.....	1,544,960	78,010,166	-	79,555,126
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,544,960)	(158,902)	-	(1,703,862)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	458,684	-	458,684
Transfers out.....	-	(290,000)	-	(290,000)
TOTAL OTHER FINANCING SOURCES (USES)...	-	168,684	-	168,684
NET CHANGE IN FUND BALANCE.....	(1,544,960)	9,782	-	(1,535,178)
FUND BALANCE AT BEGINNING OF YEAR.....	2,560,669	2,560,669	2,560,669	2,560,669
FUND BALANCE AT END OF YEAR.....	\$ 1,015,709	\$ 2,570,451	\$ 2,560,669	\$ 1,025,491

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 66,346,278	\$ -	\$ 66,346,278	\$ (643,352)
2,824,879	-	2,824,879	265,328
330,168	-	330,168	330,168
64,515	-	64,515	7,021
7,289,579	-	7,289,579	80,805
204,686	-	204,686	29,686
429,384	-	429,384	19,351
77,551	-	77,551	2,551
264,702	-	264,702	(68,419)
20,310	-	20,310	(22,351)
<u>77,852,052</u>	<u>-</u>	<u>77,852,052</u>	<u>788</u>
2,845,812	235,841	3,081,653	101,020
6,666,121	84,938	6,751,059	125,750
47,838,582	1,396,365	49,234,947	127,017
3,489,031	54,065	3,543,096	91,875
507,899	-	507,899	27,163
1,162,489	633	1,163,122	11,175
2,847,815	-	2,847,815	3,309
7,203,341	30,083	7,233,424	71,734
213,481	-	213,481	5,341
192,672	-	192,672	41,220
3,155,000	-	3,155,000	-
<u>1,025,354</u>	<u>-</u>	<u>1,025,354</u>	<u>-</u>
<u>77,147,597</u>	<u>1,801,925</u>	<u>78,949,522</u>	<u>605,604</u>
<u>704,455</u>	<u>(1,801,925)</u>	<u>(1,097,470)</u>	<u>606,392</u>
458,684	-	458,684	-
<u>(290,000)</u>	<u>-</u>	<u>(290,000)</u>	<u>-</u>
<u>168,684</u>	<u>-</u>	<u>168,684</u>	<u>-</u>
873,139	(1,801,925)	(928,786)	606,392
<u>2,560,669</u>	<u>2,560,669</u>	<u>2,560,669</u>	<u>-</u>
<u>\$ 3,433,808</u>	<u>\$ 758,744</u>	<u>\$ 1,631,883</u>	<u>\$ 606,392</u>

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 819,987,914	\$ 1,742,380,855	\$ 922,392,941	47.1%	\$ 384,598,692	239.8%
01/01/08	774,863,669	1,529,806,307	754,942,638	50.7%	360,206,302	209.6%
01/01/06	653,156,866	1,364,582,969	711,426,103	47.9%	330,999,861	214.9%
01/01/04	618,163,380	1,223,828,127	605,664,747	50.5%	306,025,949	197.9%
01/01/02	599,699,143	1,020,828,178	421,129,035	58.7%	280,740,439	150.0%
01/01/00	570,263,467	905,280,472	335,017,005	63.0%	253,228,818	132.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2005	\$ 50,660,236	100
2006	57,553,642	100
2007	64,053,064	100
2008	71,233,749	100
2009	74,126,190	100
2010	76,270,263	100

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2006	\$ 1,789,065	100	3.5%
2007	2,065,921	100	3.6%
2008	2,308,957	100	3.6%
2009	2,621,713	100	3.7%
2010	2,670,190	100	3.6%
2011	2,789,175	100	3.7%

OTHER POST EMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the Town's other post employment benefits plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/07	\$ -	\$ 27,874,000	\$ 27,874,000	-	\$ 30,539,000	91.3%
07/01/09	-	36,411,392	36,411,392	-	26,874,811	135.5%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress are as follows:

- The actuarial cost method was changed from entry age normal (07/01/07 valuation) to projected unit credit (07/01/09 valuation)
- The interest discount rate was changed from 5.0% (07/01/07 valuation) to 4.0% (07/01/09 valuation)

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2011, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 77,852,052	\$ 78,949,522	\$ 168,684
<u>Reclassifications</u>			
Activity of stabilization fund recorded in the general fund for GAAP purposes.....	46,110	-	-
Activity of health insurance and workers' compensation trusts recorded in the general fund for GAAP purposes.....	155,282	(30,258)	200,000
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	25,610	-	-
Net change in recording tax refunds payable.....	(72,490)	-	-
To record MTRS on-behalf payments.....	5,029,696	5,029,696	-
To record capital leases.....	-	226,104	226,104
To record encumbrances and continuing appropriations.....	-	(1,801,925)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>83,036,260</u>	\$ <u>82,373,139</u>	\$ <u>594,788</u>

NOTE B - PENSION PLAN

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2010
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability
Remaining amortization period:	As of July 1, 2010, 9 years remaining for 2002 ERI liability, 10 years remaining for the 2003 ERI liability and 25 years for remaining unfunded liability
Asset valuation method:	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period as described by Revenue Procedure 2000-40

Actuarial assumptions:

Investment rate of return:	8.125%
Projected salary increases:	4.75% for Group 1 and 5.25% for Group 4
Cost of living adjustments:	3.00% of first \$12,000 of retirement income, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012