

TOWN OF EASTHAM, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Eastham, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Eastham, Massachusetts, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Eastham, 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, each major fund, and the aggregate remaining fund information of the Town of Eastham, Massachusetts, as of June 30, 2011, and the respective changes in financial position thereof for the 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 October 18, 2011 on our consideration of the Town of Eastham, 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 the management's discussion and analysis (located on pages 4 through 11) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 47 through 52) 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

October 18, 2011

Management's Discussion and Analysis

As management of the Town of Eastham, 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 \$27,778,432 (net assets). The Town had an unrestricted deficit at the end of the current fiscal year totaling \$1,199,885.
- The Town's total net assets decreased by \$710,910.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$1,635,880, or 7.8 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$950,075 during the fiscal year; no new long-term debt was issued during the fiscal year.

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 other 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.).

The government-wide financial statements present functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, community development and debt service (interest).

The government-wide financial statements can be found on pages 14-15 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. 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 199 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 municipal water supply (capital project) funds, each of which are considered to be major funds. Data from the other 196 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 16-21 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 the government-wide financial statements.

The fiduciary funds provide separate information for private-purpose trust funds and agency funds, and are 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 22-23 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 24-46 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 is located on pages 47-52 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 \$27,778,432 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2011	2010
Assets		
Current assets.....	\$ 13,318,669	\$ 12,696,612
Noncurrent assets (excluding capital assets).....	259,001	265,154
Capital assets (net).....	<u>32,019,115</u>	<u>30,912,503</u>
Total assets.....	<u>45,596,785</u>	<u>43,874,269</u>
Liabilities		
Current liabilities (excluding debt).....	1,388,499	1,414,765
Noncurrent liabilities (excluding debt).....	4,544,953	2,957,086
Current debt.....	4,108,000	2,278,175
Noncurrent debt.....	<u>7,776,901</u>	<u>8,734,901</u>
Total liabilities.....	<u>17,818,353</u>	<u>15,384,927</u>
Net Assets		
Invested in capital assets (net of related debt).....	21,564,375	20,807,361
Restricted.....	7,413,942	4,177,828
Unrestricted.....	<u>(1,199,885)</u>	<u>3,504,153</u>
Total net assets.....	<u>\$ 27,778,432</u>	<u>\$ 28,489,342</u>

The largest portion of the Town's net assets (77.6%) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery, vehicles and equipment, infrastructure and construction in progress); 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 (26.7%) represents resources that are subject to external restrictions on how they may be used.

The Town has no unrestricted net assets available for the support of governmental activities. Such resources have been consumed with the recognition of other post retirement benefit liabilities.

Changes in Net Assets

The following table summarizes the Town's changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2011:

	<i>Governmental Activities</i>	
	<u>2011</u>	<u>2010</u>
Revenues		
<i>Program Revenues:</i>		
Charges for services.....	\$ 2,756,113	\$ 2,570,402
Operating grants and contributions.....	1,213,179	1,357,687
Capital grants and contributions.....	30,941	489,979
<i>General Revenues:</i>		
Real estate, personal property taxes and tax liens.....	16,209,835	15,864,478
Motor vehicle and other excise taxes.....	660,605	648,417
Hotel/motel taxes.....	257,820	236,070
Penalties and interest on taxes.....	83,407	85,706
Payments in lieu of taxes.....	7,253	2,366
Community preservation surcharges.....	480,960	469,351
Grants and contributions not restricted to specific programs.....	126,013	131,260
Unrestricted investment income.....	17,355	20,098
Total revenues.....	<u>21,843,481</u>	<u>21,875,814</u>
Expenses		
General government.....	3,408,704	3,187,763
Public safety.....	6,052,818	5,375,279
Education.....	8,868,656	8,711,155
Public works.....	1,941,307	1,936,168
Health and human services.....	932,278	923,905
Culture and recreation.....	919,683	886,507
Community development.....	7,006	5,546
Debt service - interest.....	423,939	450,370
Total expenses.....	<u>22,554,391</u>	<u>21,476,693</u>
Change in net assets.....	(710,910)	399,121
Net assets - beginning of year.....	<u>28,489,342</u>	<u>28,090,221</u>
Net assets - end of year.....	<u>\$ 27,778,432</u>	<u>\$ 28,489,342</u>

Governmental activities decreased the Town's net assets by \$710,910. In the prior year, governmental activities increased the Town's net assets by \$399,121. The key elements of this change are a decrease in capital grants and contributions (\$459,000) and an increase in other postemployment benefits expenses (\$220,000).

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 \$8,888,197, a decrease of \$1,127,151 in comparison with the prior year. (\$153,710) represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$335,285)
- Restricted (\$7,013,670)
- Committed (\$1,568,470)
- Assigned (\$124,482)

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 \$1,635,880, while total fund balance was \$3,328,832. 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. Unassigned fund balance represents 7.8% of total general fund expenditures and transfers out, while total fund balance represents 15.9% of that same amount.

The fund balance of the general fund decreased \$190,112 during the current fiscal year. Although the Town recognized a positive budget to actual variance totaling approximately \$1,736,000 (excluding encumbrances and continuing appropriations), approximately \$1,929,000 of reserves were used to fund the fiscal year 2011 budget.

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

The fund balance of the community preservation fund (special revenue) increased by \$205,653 during the current fiscal year. The fund recognized \$480,228 in surcharges, \$171,655 in intergovernmental revenues and \$10,754 in investment income. Expenditures of \$116,984 were incurred during the fiscal year.

The fund balance of the municipal water supply fund (capital project) decreased \$1,149,197 as a result of expenditures incurred during the fiscal year.

General Fund Budgetary Highlights

The original general fund budget of \$20,809,396 was increased by \$18,520 (0.1%) during the fiscal year for snow and ice removal with a funding source of undesignated fund balance.

During the year, revenues and other financing sources and uses exceeded budgetary estimates while expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive budget to actual variance totaling approximately \$675,000.

Capital Assets and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$32,019,115 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, infrastructure and construction in progress. The total increase in the investment in capital assets for the current fiscal year totaled 3.6%.

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

- Municipal water supply construction in progress (\$1,149,000)
- Purchase of ambulances (\$389,576)

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

	<i>Governmental Activities</i>	
	<u>2011</u>	<u>2010</u>
Land.....	\$ 8,749,204	\$ 8,749,204
Construction in progress.....	2,049,538	861,295
Buildings and improvements.....	15,889,540	16,401,911
Machinery, vehicles and equipment.....	2,173,785	1,611,634
Infrastructure.....	<u>3,157,048</u>	<u>3,288,459</u>
 Total capital assets.....	 <u>\$ 32,019,115</u>	 <u>\$ 30,912,503</u>

Additional information on the Town's capital assets can be found in Note 5 on page 36 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$8,734,901, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	<u>2011</u>	<u>2010</u>
General obligation bonds.....	\$ 8,230,000	\$ 9,065,000
MWPAT notes.....	<u>504,901</u>	<u>619,976</u>
 Total bonds and notes.....	 <u>\$ 8,734,901</u>	 <u>\$ 9,684,976</u>

The Town retired \$950,075 of long-term debt during the current fiscal year, with no new long-term debt issuances.

Additional information on the Town's long-term debt can be found in Note 9 on pages 38-39 of this report.

Economic Factors and Next Year's Budgets and Rates

For the fiscal year 2012 budget process, the Board of Selectmen, recognizing that an override would be needed to sustain existing services, supported the development of a budget that restored and maintained existing programs. The override amount was established at no more than \$500,000. As revenue and expenditure needs developed, the Board agreed to seek an override in the amount of \$500,000 to support education and municipal needs. They also decided to limit the use of free cash in this year. The five-year projections indicate that an override amount should sustain and accommodate budgets for the next three to five years.

All collective bargaining agreements cover a three-year period, a departure from the past four years when contracts were negotiated annually. This further supports more accurate forecasting and budget planning in the next few fiscal years.

Again, value must be given to the impact of the national economy on the local economy. Eastham contains a large number of second home seasonal residents. Sales of such homes have been very slow, as have the dollar value and number of the permits related to renovation and expansion of these units. It is expected that new growth may decline from the last year low of \$65,000. A reduction in building permits and its impact on "New Growth" will continue this fiscal year and possibly into the next.

In developing the fiscal year 2012 budget, the Town used conservative estimates of local receipts and new growth, eliminated any potential state aid, settled contracts for a longer period of time, and knowing this, relied on a successful override to fully fund operations and restore positions to an organization crippled by vacancies.

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 Town Accountant, 2500 State Highway, Eastham, Massachusetts 02642.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 4,109,512
Restricted cash and cash equivalents.....	8,509,526
Receivables, net of allowance for uncollectible amounts:	
Real estate and personal property taxes.....	360,580
Tax liens.....	109,096
Motor vehicle and other excise taxes.....	69,558
Community preservation surcharges.....	9,279
Departmental and other.....	95,891
Intergovernmental.....	31,060
Loans.....	24,167
Total current assets.....	<u>13,318,669</u>
Noncurrent assets:	
Receivables, net of allowance for uncollectible amounts:	
Intergovernmental.....	28,441
Loans.....	175,672
Tax foreclosures.....	54,888
Capital assets not being depreciated.....	10,798,742
Capital assets, net of accumulated depreciation.....	<u>21,220,373</u>
Total noncurrent assets.....	<u>32,278,116</u>
Total assets.....	<u>45,596,785</u>
LIABILITIES	
Current liabilities:	
Warrants payable.....	266,274
Accrued payroll.....	514,194
Other liabilities.....	119,515
Accrued interest.....	83,766
Capital lease obligations.....	251,511
Compensated absences.....	153,239
Short-term notes payable.....	3,150,000
Long-term bonds and notes payable.....	<u>958,000</u>
Total current liabilities.....	<u>5,496,499</u>
Noncurrent liabilities:	
Capital lease obligations.....	183,638
Compensated absences.....	112,153
Net OPEB obligation.....	4,249,162
Long-term bonds and notes payable.....	<u>7,776,901</u>
Total noncurrent liabilities.....	<u>12,321,854</u>
Total liabilities.....	<u>17,818,353</u>
NET ASSETS	
Invested in capital assets, net of related debt.....	21,564,375
Restricted for:	
Community preservation.....	3,534,230
Loans.....	199,839
Permanent funds:	
Expendable.....	136,251
Nonexpendable.....	135,446
Other specific purposes.....	3,408,176
Unrestricted.....	<u>(1,199,885)</u>
Total net assets.....	<u>\$ 27,778,432</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 3,408,704	\$ 788,345	\$ 244,796	\$ -	\$ (2,375,563)
Public safety.....	6,052,818	751,420	33,867	-	(5,267,531)
Education.....	8,868,656	39,377	787,846	-	(8,041,433)
Public works.....	1,941,307	617,599	12,004	30,941	(1,280,763)
Health and human services.....	932,278	123,025	58,608	-	(750,645)
Culture and recreation.....	919,683	436,347	63,860	-	(419,476)
Community development.....	7,006	-	73	-	(6,933)
Debt service - interest.....	423,939	-	12,125	-	(411,814)
Total governmental activities.....	<u>22,554,391</u>	<u>2,756,113</u>	<u>1,213,179</u>	<u>30,941</u>	<u>(18,554,158)</u>
General revenues:					
					16,209,835
Real estate, personal property taxes and tax liens.....					660,605
Motor vehicle and other excise taxes.....					257,820
Hotel/motel taxes.....					83,407
Penalties and interest on taxes.....					7,253
Payments in lieu of taxes.....					480,960
Community preservation surcharges.....					126,013
Grants and contributions not restricted to specific programs.....					17,355
Unrestricted investment income.....					<u>17,843,248</u>
Total general revenues.....					<u>17,843,248</u>
Change in net assets.....					(710,910)
Net assets - beginning of year.....					<u>28,489,342</u>
Net assets - end of year.....					<u>\$ 27,778,432</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	General	Community Preservation	Municipal Water Supply
Cash and cash equivalents.....	\$ 4,109,512	\$ -	\$ -
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	360,580	-	-
Tax liens.....	109,096	-	-
Motor vehicle and other excise taxes.....	69,558	-	-
Community preservation surcharges.....	-	9,279	-
Departmental and other.....	4,032	-	-
Intergovernmental.....	59,501	-	-
Loans.....	-	-	-
Tax foreclosures.....	54,888	-	-
Restricted assets:			
Cash and cash equivalents.....	-	3,524,951	1,360,410
TOTAL ASSETS.....	\$ 4,767,167	\$ 3,534,230	\$ 1,360,410
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 266,274	\$ -	\$ -
Accrued payroll.....	514,194	-	-
Other liabilities.....	119,515	-	-
Deferred revenue.....	538,352	9,279	-
Short-term notes payable.....	-	-	3,150,000
TOTAL LIABILITIES.....	1,438,335	9,279	3,150,000
FUND BALANCES:			
Nonspendable.....	-	-	-
Restricted.....	-	3,524,951	-
Committed.....	1,568,470	-	-
Assigned.....	124,482	-	-
Unassigned.....	1,635,880	-	(1,789,590)
TOTAL FUND BALANCES.....	3,328,832	3,524,951	(1,789,590)
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 4,767,167	\$ 3,534,230	\$ 1,360,410

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,109,512
-	360,580
-	109,096
-	69,558
-	9,279
91,859	95,891
-	59,501
199,839	199,839
-	54,888
<u>3,624,165</u>	<u>8,509,526</u>
<u>\$ 3,915,863</u>	<u>\$ 13,577,670</u>

\$ -	\$ 266,274
-	514,194
-	119,515
91,859	639,490
<u>-</u>	<u>3,150,000</u>
<u>91,859</u>	<u>4,689,473</u>
335,285	335,285
3,488,719	7,013,670
-	1,568,470
-	124,482
<u>-</u>	<u>(153,710)</u>
<u>3,824,004</u>	<u>8,888,197</u>
<u>\$ 3,915,863</u>	<u>\$ 13,577,670</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Community Preservation	Municipal Water Supply
REVENUES			
Real estate and personal property taxes.....	\$ 16,164,246	\$ -	\$ -
Motor vehicle and other excise taxes.....	643,798	-	-
Hotel/motel tax.....	257,820	-	-
Tax liens.....	34,059	-	-
Payments in lieu of taxes.....	7,253	-	-
Community preservation surcharges.....	-	480,228	-
Charges for services.....	-	-	-
Intergovernmental.....	930,807	171,655	-
Penalties and interest on taxes.....	83,407	-	-
Licenses and permits.....	373,834	-	-
Fines and forfeitures.....	51,568	-	-
Departmental and other.....	1,615,841	-	-
Contributions.....	-	-	-
Investment income.....	17,892	10,754	-
TOTAL REVENUES	<u>20,180,525</u>	<u>662,637</u>	<u>-</u>
EXPENDITURES			
Current:			
General government.....	2,881,208	13,264	-
Public safety.....	3,529,371	-	-
Education.....	6,938,580	21,030	-
Public works.....	1,160,616	6,955	1,143,052
Health and human services.....	559,550	-	-
Culture and recreation.....	585,686	2,870	-
Community development.....	-	-	-
Pension benefits.....	1,410,957	-	-
Employee benefits.....	1,799,990	-	-
Property and liability insurance.....	300,141	-	-
State and county charges.....	446,104	-	-
Debt service:			
Principal.....	905,075	45,000	-
Interest.....	400,251	27,865	6,145
TOTAL EXPENDITURES	<u>20,917,529</u>	<u>116,984</u>	<u>1,149,197</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(737,004)</u>	<u>545,653</u>	<u>(1,149,197)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in.....	557,877	-	-
Transfers out.....	(10,985)	(340,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>546,892</u>	<u>(340,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(190,112)	205,653	(1,149,197)
FUND BALANCES AT BEGINNING OF YEAR	3,518,944	3,319,298	(640,393)
FUND BALANCES AT END OF YEAR	<u>\$ 3,328,832</u>	<u>\$ 3,524,951</u>	<u>\$ (1,789,590)</u>

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 16,164,246
-	643,798
-	257,820
-	34,059
-	7,253
-	480,228
425,540	425,540
192,825	1,295,287
-	83,407
-	373,834
-	51,568
305,538	1,921,379
45,252	45,252
5,999	34,645
<u>975,154</u>	<u>21,818,316</u>
377,675	3,272,147
106,138	3,635,509
112,532	7,072,142
10,702	2,321,325
45,195	604,745
102,509	691,065
7,006	7,006
-	1,410,957
-	1,799,990
-	300,141
-	446,104
-	950,075
-	434,261
<u>761,757</u>	<u>22,945,467</u>
<u>213,397</u>	<u>(1,127,151)</u>
350,985	908,862
(557,877)	(908,862)
<u>(206,892)</u>	<u>-</u>
6,505	(1,127,151)
<u>3,817,499</u>	<u>10,015,348</u>
<u>\$ 3,824,004</u>	<u>\$ 8,888,197</u>

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

JUNE 30, 2011

Total governmental fund balances (page 17).....	\$	8,888,197
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		32,019,115
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		639,490
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.....		(83,766)
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.....		(8,734,901)
Capital lease obligations.....		(435,149)
Compensated absences.....		(265,392)
Net OPEB obligation.....		<u>(4,249,162)</u>
Net assets of governmental activities (page 14).....	\$	<u><u>27,778,432</u></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)..... \$ (1,127,151)

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.....	2,365,045
Depreciation.....	(1,116,295)

In the statement of activities, the *gain/loss* on the disposal of capital assets is reported, whereas in the governmental funds, asset disposals are not reported as financial resources. 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.....

(142,138)

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.....

25,166

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 maturities.....	950,075
Capital lease proceeds.....	(554,472)
Capital lease maturities.....	354,398

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.....

10,321

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.....	11,085
Net OPEB obligation.....	(1,486,944)

Changes in net assets of governmental activities (page 15)..... \$ (710,910)

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.....	\$ 111,687	\$ 10,140
Receivables, net of allowance for uncollectible amounts:		
Loans.....	<u>70,210</u>	<u>-</u>
Total assets.....	<u>181,897</u>	<u>10,140</u>
 LIABILITIES		
Liabilities due depositors.....	<u>-</u>	<u>10,140</u>
 NET ASSETS		
Held in trust for other purposes.....	<u>\$ 181,897</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.....	\$ 12,512
Other.....	<u>4,000</u>
Total contributions.....	<u>16,512</u>
Net investment income:	
Interest.....	<u>1,413</u>
TOTAL ADDITIONS.....	<u>17,925</u>
DEDUCTIONS	
Scholarships awarded.....	<u>4,000</u>
CHANGE IN NET ASSETS.....	13,925
NET ASSETS AT BEGINNING OF YEAR.....	<u>167,972</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 181,897</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 Eastham, 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, account groups, 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 three 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. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2011 Assessment</u>
Orleans, Brewster and Eastham Groundwater Protection District	To provide septage disposal services	PO Box 2773 Orleans, MA 02653	\$ -
Nauset Regional School District	To provide educational services	78 Elderidge Parkway Orleans, MA 02653	\$ 3,489,481
Cape Cod Regional Technical High School	To provide vocational educational services	351 Pleasant Lake Avenue Harwich, MA 02645	\$ 147,502

The Board of Selectmen is responsible for appointing one of the three members of the Board of Managers for the Orleans, Brewster and Eastham Groundwater Protection District (District). The Town is responsible for its share of capital improvements made to the septage facility, which was constructed and financed by the members of the District. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

The Nauset Regional School District (District) is governed by a 10 member school committee consisting of two elected representatives from the Town. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified on the previous page.

The Cape Cod Regional Technical High School (School) is governed by a 21 member school committee consisting of two representatives (appointed by the Board of Selectmen) from the Town. The Town is indirectly liable for the School's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the School at the address identified on the previous page.

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. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds.

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

D. Government-Wide and Fund Financial Statements

Government-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. *Governmental activities* are primarily supported by taxes and intergovernmental revenues.

Fund Financial Statements

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

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide 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.

The effect of interfund activity has been eliminated from the government-wide financial statements.

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, 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. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *municipal water supply fund* is a capital projects fund used to account for the development of a Town-wide municipal water system.

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.

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 properly 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. Agency funds do not present the results of operations or have a measurement focus.

F. Cash and Cash Equivalents 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, 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 November 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 annually 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. The surcharge is due with the real estate tax on November 1st and May 1st and is subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges would be 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 represent amounts due from various departmental activities. These receivables are recorded when the service has been provided or the applicable agreement has been entered into.

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.

Loans

The Town administers various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. The Town also administers educational loan programs. Loans are recorded as receivables upon issuance.

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
- Loans

The allowance for uncollectible amounts for personal property taxes and loans is immaterial to the financial statements 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
- 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, construction in progress, land improvements, buildings and improvements, machinery, equipment and vehicles, and infrastructure (e.g., roads, sidewalks and similar items), are reported in the governmental 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. Construction period interest is not capitalized on constructed capital assets.

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 construction-in-progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20
Buildings and improvements.....	20-40
Machinery, vehicles and equipment.....	3-20
Infrastructure.....	20-40

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.

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.

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 (Net Assets)

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

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

"Loans" represents outstanding septic loans receivable.

“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 Financial Statements

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

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources 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 and private-purpose trust 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).

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 Financial Statements

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

Governmental Fund 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.

S. Post Retirement Benefits**Government-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 retirees and their spouses.

T. Use of Estimates**Government-Wide and Fund Financial Statements**

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

U. Total Column**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**A. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Board of Selectmen 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 line item, adopts the expenditure budget by majority vote.

Increases to the annual budget subsequent to Annual Town Meeting approval 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 and court judgments, 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 \$20,809,396 in appropriations. During fiscal year 2011, supplemental appropriations totaling \$18,520 were authorized.

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

B. Fund Deficits

At June 30, 2011, a temporary fund deficit exists in the municipal water supply fund (major fund) in the amount of \$1,789,590. This amount will be funded in future fiscal years through the issuance of long-term debt.

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 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 is to rely on FDIC and DIF insurance coverage and to collateralize an additional portion of deposits. In addition, the Town's deposits will be limited to financial institutions with proven financial strength, capital adequacy and overall affirmative reputation in the municipal industry.

As of June 30, 2011, \$1,566,605 of the Town's bank balance of \$12,301,877 was uninsured and uncollateralized and exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2011 totaled \$596,900 and consisted entirely of MMDT.

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 is to manage duration of investments consistent with the municipal finance laws of the Commonwealth. As of June 30, 2011, the Town was not exposed to interest rate risk.

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's policy for custodial credit risk of investments is to limit the Town's investments to financial institutions with proven financial strength, capital adequacy and overall affirmative reputation in the municipal industry. In addition, all securities not held directly by the Town will be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

As of June 30, 2011, the Town's investments of \$596,900 in MMDT were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town's policy for credit risk of debt securities is to allow for unlimited investments in United States treasury and agency obligations which carry an AAA rating. In regards to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A and above. In addition, the Town may invest in MMDT with no limit to the amount of funds placed in the trust.

As of June 30, 2011, the Town's investments in MMDT were unrated by a national credit rating organization.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2011, receivables for the individual major governmental funds and nonmajor governmental funds 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.....	\$ 360,580	\$ -	\$ 360,580
Tax liens.....	109,096	-	109,096
Motor vehicle and other excise taxes.....	109,387	(39,829)	69,558
Community preservation surcharges.....	9,279	-	9,279
Departmental and other.....	96,926	(1,035)	95,891
Intergovernmental.....	59,501	-	59,501
Loans.....	270,049	-	270,049
	<u>\$ 1,014,818</u>	<u>\$ (40,864)</u>	<u>\$ 973,954</u>

Governmental funds report *deferred revenue* in connection with receivables and 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:

<u>Receivable type:</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 241,277	\$ -	\$ 241,277
Tax liens.....	109,096	-	109,096
Motor vehicle and other excise taxes.....	69,558	-	69,558
Community preservation surcharges.....	-	9,279 (a)	9,279
Departmental and other.....	4,032	91,859 (b)	95,891
Intergovernmental (other state and federal).....	59,501	-	59,501
Tax foreclosures.....	54,888	-	54,888
 Total.....	 \$ 538,352	 \$ 101,138	 \$ 639,490

(a) Community preservation fund (major fund)

(b) Nonmajor governmental funds

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 8,749,204	\$ -	\$ -	\$ 8,749,204
Construction in progress.....	861,295	1,188,243	-	2,049,538
Total capital assets not being depreciated.....	<u>9,610,499</u>	<u>1,188,243</u>	<u>-</u>	<u>10,798,742</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	14,000	-	-	14,000
Buildings and improvements.....	20,735,227	-	-	20,735,227
Machinery, vehicles and equipment.....	4,285,326	1,085,333	(567,592)	4,803,067
Infrastructure.....	7,177,020	91,469	-	7,268,489
Total capital assets being depreciated.....	<u>32,211,573</u>	<u>1,176,802</u>	<u>(567,592)</u>	<u>32,820,783</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(14,000)	-	-	(14,000)
Buildings and improvements.....	(4,333,316)	(512,371)	-	(4,845,687)
Machinery, vehicles and equipment.....	(2,673,692)	(381,044)	425,454	(2,629,282)
Infrastructure.....	(3,888,561)	(222,880)	-	(4,111,441)
Total accumulated depreciation.....	<u>(10,909,569)</u>	<u>(1,116,295)</u>	<u>425,454</u>	<u>(11,600,410)</u>
Total capital assets being depreciated, net.....	<u>21,302,004</u>	<u>60,507</u>	<u>(142,138)</u>	<u>21,220,373</u>
Total governmental activities capital assets, net.....	<u>\$ 30,912,503</u>	<u>\$ 1,248,750</u>	<u>\$ (142,138)</u>	<u>\$ 32,019,115</u>

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

Governmental Activities:

General government.....	\$ 107,914
Public safety.....	260,044
Education.....	302,388
Public works.....	404,283
Health and human services.....	15,752
Culture and recreation.....	25,914

Total depreciation expense - governmental activities..... \$ 1,116,295

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 10,985	\$ 10,985 (1)
Community Preservation Fund.....	-	340,000	340,000 (2)
Nonmajor Governmental Funds.....	557,877	-	557,877 (3)
	<u>\$ 557,877</u>	<u>\$ 350,985</u>	<u>\$ 908,862</u>

- (1) Represents a budgeted transfer to the visitors special revenue fund (\$10,000) and an unbudgeted transfer to the library trustee memorial permanent fund (\$985)
- (2) Represents a budgeted transfer to the affordable housing special revenue fund
- (3) Represents budgeted transfers from the ambulance receipts (\$510,476), septic repair loans (20,401), council on aging human services gift (\$20,000), waterways (\$5,000) and windmill (\$1,000) special revenue funds and an unbudgeted transfer from the historical commission special revenue fund (\$1,000) to close an old grant

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 for short-term borrowings are accounted for in the general fund.

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

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
GAN	Chapter 90.....	6/25/10	8/31/10	1.20%	\$ 328,100	\$	\$ (328,100)	\$ -
BAN	Municipal water supply.....	6/25/10	8/31/10	1.20%	1,000,000		(1,000,000)	-
BAN	Municipal water supply.....	8/31/10	5/31/11	1.00%	-	1,000,000	(1,000,000)	-
BAN	Municipal water supply.....	12/15/10	5/31/11	1.00%	-	2,000,000	(2,000,000)	-
BAN	Municipal water supply.....	5/31/11	11/30/11	0.94%	-	3,150,000	-	3,150,000
Total.....					\$ 1,328,100	\$ 6,150,000	\$ (4,328,100)	\$ 3,150,000

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.....	\$ 9,684,976	\$ -	\$ (950,075)	\$ 8,734,901	\$ 958,000
Capital lease obligations.....	235,075	554,472	(354,398)	435,149	251,511
Net OPEB obligation.....	2,762,218	1,870,316	(383,372)	4,249,162	-
Compensated absences.....	276,477	-	(11,085)	265,392	153,239
Total.....	\$ 12,958,746	\$ 2,424,788	\$ (1,698,930)	\$ 13,684,604	\$ 1,362,750

NOTE 9 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

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

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Land Acquisition.....	4.62%	\$ 150,000	\$ -	\$ (75,000)	\$ 75,000
Landfill Closure and Capping (MWPAT).....	4.56%	345,775	-	(94,675)	251,100
Septic Repair Loan Program (MWPAT).....	5.05%	114,201	-	(10,400)	103,801
Fire Station.....	4.85%	900,000	-	(150,000)	750,000
Land Acquisition.....	4.62%	995,000	-	(80,000)	915,000
Septic Repair Loan Program (MWPAT).....	0.00%	160,000	-	(10,000)	150,000
Transfer Station Renovations.....	2.5-4%	480,000	-	(120,000)	360,000
Elementary School Addition.....	4.24%	6,540,000	-	(410,000)	6,130,000
Total bonds and notes payable.....		\$ 9,684,976	\$ -	\$ (950,075)	\$ 8,734,901

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

Fiscal Year	Principal	Interest	Total
2012.....	\$ 958,000	\$ 367,820	\$ 1,325,820
2013.....	837,400	374,867	1,212,267
2014.....	891,900	294,891	1,186,791
2015.....	675,400	265,434	940,834
2016.....	680,400	235,099	915,499
2017.....	540,400	202,421	742,821
2018.....	540,400	171,531	711,931
2019.....	550,400	144,946	695,346
2020.....	550,400	119,521	669,921
2021.....	430,201	95,760	525,961
2022.....	420,000	78,170	498,170
2023.....	415,000	60,852	475,852
2024.....	415,000	43,538	458,538
2025.....	415,000	26,123	441,123
2026.....	415,000	8,708	423,708
Total.....	\$ 8,734,901	\$ 2,489,681	\$ 11,224,582

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2011, the Town's subsidy totaled approximately \$40,000. Future subsidies total approximately \$121,000.

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 authorized and unissued debt in the amount of \$3,150,000 for the municipal water supply project. This amount was issued as an outstanding BAN at June 30, 2011.

NOTE 10 - CAPITAL LEASES

The Town has entered into certain capital lease agreements for various machinery, vehicles and equipment, under which the assets will become property of the Town when all terms of the lease agreement 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 Ending June 30</u>	<u>Governmental Activities</u>
2012.....	\$ 264,777
2013.....	183,638
Less: amounts representing interest.....	<u>(13,266)</u>
Present value of minimum lease payments.....	<u>\$ 435,149</u>

Machinery, vehicles and equipment and the related accumulated amortization under capital leases is as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 656,481
Less: accumulated amortization.....	<u>(221,332)</u>
Total.....	<u>\$ 435,149</u>

Amortization of leased assets under capital leases is included with depreciation expense.

NOTE 11 - OTHER POSTEMPLOYMENT 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 June 30, 2010, the latest actuarial valuation, is as follows:

Active employees.....	126
Retired employees, beneficiaries and dependents.....	<u>85</u>
Total.....	<u>211</u>

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health and dental insurance (including Medicare Part B) contribution rates of Plan members and the Town are 35% and 65%, respectively. The Plan members and Town each contribute 50% towards a \$5,000 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 shows 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.....	\$ 1,833,228
Interest on net OPEB obligation.....	138,111
Adjustment to annual required contribution.....	<u>(101,023)</u>
Annual OPEB cost.....	1,870,316
Contributions made.....	<u>(383,372)</u>
Increase in net OPEB obligation.....	1,486,944
Net OPEB obligation at beginning of year.....	<u>2,762,218</u>
Net OPEB obligation at end of year.....	<u>\$ 4,249,162</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*.....	\$ 1,778,696	15.9%	\$ 1,495,101
June 30, 2010.....	1,605,797	21.1%	2,762,218
June 30, 2011.....	1,870,316	20.5%	4,249,162

* Transition year

Funded Status and Funding Progress - The funded status of the Plan at June 30, 2010, 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)
06/30/10	\$ -	\$ 27,281,696	\$ 27,281,696	0.0%	\$ 8,522,210	320.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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:	June 30, 2010
Actuarial cost method:	Projected Unit Credit
Amortization method:	Amortization payments increasing at 4.5%
Remaining amortization period:	30 years (open)
Interest discount rate:	5.00%
Healthcare/Medical cost trend rate:	10.0% decreasing by 0.75% for 6 years and by 0.50% for 1 year to an ultimate level of 5.0%
Projected salary increases:	4.50% annually

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

Governmental Activities:

General government.....	\$	306,346
Public safety.....		718,966
Education.....		507,388
Public works.....		140,264
Health and human services.....		98,093
Culture and recreation.....		99,259
		<u>1,870,316</u>
Total AOPEBC - governmental activities.....	\$	<u>1,870,316</u>

NOTE 12 - FUND BALANCES

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

	General	Community Preservation	Municipal Water Supply	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Loans.....	\$ -	\$ -	\$ -	\$ 199,839	\$ 199,839
Permanent fund principal.....	-	-	-	135,446	135,446
Sub-total - Nonspendable.....	-	-	-	335,285	335,285
Restricted:					
General government.....	-	-	-	400,246	400,246
Public safety.....	-	-	-	708,207	708,207
Education.....	-	-	-	132,544	132,544
Public works.....	-	-	-	281,440	281,440
Health and human services.....	-	-	-	82,249	82,249
Culture and recreation.....	-	-	-	897,525	897,525
Community development.....	-	-	-	291,750	291,750
Community preservation.....	-	3,524,951	-	-	3,524,951
Affordable housing.....	-	-	-	694,758	694,758
Sub-total - Restricted.....	-	3,524,951	-	3,488,719	7,013,670
Committed:					
Subsequent year's expenditures.....	631,768	-	-	-	631,768
Continuing appropriations.....	936,702	-	-	-	936,702
Sub-total - Committed.....	1,568,470	-	-	-	1,568,470
Assigned:					
Encumbrances.....	124,482	-	-	-	124,482
Unassigned.....					
	1,635,880	-	(1,789,590)	-	(153,710)
Total fund balances.....	\$ 3,328,832	\$ 3,524,951	\$ (1,789,590)	\$ 3,824,004	\$ 8,888,197

NOTE 13 - 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 \$176,371 and is included in the unassigned fund balance of the general fund.

NOTE 14 - 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.

Health Insurance

The Town participates in a health insurance risk pool administered by the Cape Cod Municipal Health Group (Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Group its required premiums and, in the event the Group is terminated, its proportionate share of a deficit, should one exist. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

Workers' Compensation

The Town participates in a premium-based workers' compensation policy for all employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

NOTE 15 - PENSION PLAN

Plan Description - The Town contributes to the Barnstable County Retirement Association (Association), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable County Retirement Board. Substantially all employees of the Town are members of the Association, 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 Association 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 Barnstable County Retirement Board and are borne by the Association. The Association 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 Association located at 750 Attucks Lane, Hyannis, Massachusetts, 02601.

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the Association at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Association 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 Association for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,029,701, \$936,887 and \$830,623.

NOTE 16 - 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 \$401,462 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 17 - COMMITMENTS

The Town has entered into a contract (expiring in 2012) for solid waste disposal services with SEMASS, a resource recovery facility located in Rochester, Massachusetts. Annual payments are based on the actual number of tons of solid waste disposed of at the SEMASS facility. The fiscal year 2011 payments totaled approximately \$121,000.

NOTE 18 - 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 from legal actions and claims should not materially affect the financial position of the Town at June 30, 2011.

The Town participates in a number of federal award programs. The programs are 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 19 - PRIOR PERIOD RECLASSIFICATIONS

The beginning fund balance of the general fund has been restated from \$3,343,110 to \$3,518,944 and the beginning fund balance of the stabilization major fund has been restated from \$175,834 to \$0 to reflect the reclassification of the stabilization major fund to the general fund.

The beginning fund balance of the nonmajor governmental funds has been restated from \$3,686,496 to \$3,817,499 and the beginning fund balances of the Chapter 90 and school construction major funds have been restated from (\$26,851) and \$157,854 to \$0 and \$0, respectively, to reflect the reclassification of the Chapter 90 and school construction major funds to nonmajor governmental funds.

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 2013. 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.

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.....	\$ -	\$ 16,185,534	\$ -	\$ 16,185,534
Motor vehicle and other excise taxes.....	-	630,000	-	630,000
Hotel/motel tax.....	-	240,000	-	240,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	9,000	-	9,000
Intergovernmental.....	-	490,577	-	490,577
Penalties and interest on taxes.....	-	83,000	-	83,000
Licenses and permits.....	-	340,000	-	340,000
Fines and forfeitures.....	-	64,000	-	64,000
Departmental and other.....	-	1,481,500	-	1,481,500
Investment income.....	-	19,000	-	19,000
TOTAL REVENUES.....	-	19,542,611	-	19,542,611
EXPENDITURES				
Current:				
General government.....	1,081,014	3,001,805	(59,077)	4,023,742
Public safety.....	5,938	3,578,242	36,033	3,620,213
Education.....	52,962	6,976,346	-	7,029,308
Public works.....	56,268	1,187,436	27,215	1,270,919
Health and human services.....	3,220	587,650	6,937	597,807
Culture and recreation.....	847	586,869	5,350	593,066
Pension benefits.....	-	1,029,701	-	1,029,701
Employee benefits.....	-	1,816,000	-	1,816,000
Property and liability insurance.....	-	325,600	-	325,600
State and county charges.....	-	446,793	-	446,793
Debt service:				
Principal.....	-	876,890	-	876,890
Interest.....	-	386,064	2,062	388,126
TOTAL EXPENDITURES.....	1,200,249	20,799,396	18,520	22,018,165
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,200,249)	(1,256,785)	(18,520)	(2,475,554)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	556,877	-	556,877
Transfers out.....	-	(10,000)	-	(10,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	546,877	-	546,877
NET CHANGE IN FUND BALANCE.....	(1,200,249)	(709,908)	(18,520)	(1,928,677)
FUND BALANCE AT BEGINNING OF YEAR.....	3,225,801	3,225,801	3,225,801	3,225,801
FUND BALANCE AT END OF YEAR.....	\$ 2,025,552	\$ 2,515,893	\$ 3,207,281	\$ 1,297,124

See notes to basic financial statements.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 16,162,248	\$ -	\$ 16,162,248	\$ (23,286)
643,798	-	643,798	13,798
257,820	-	257,820	17,820
34,059	-	34,059	34,059
7,253	-	7,253	(1,747)
489,035	-	489,035	(1,542)
83,407	-	83,407	407
373,834	-	373,834	33,834
51,568	-	51,568	(12,432)
1,615,845	-	1,615,845	134,345
17,355	-	17,355	(1,645)
<u>19,736,222</u>	<u>-</u>	<u>19,736,222</u>	<u>193,611</u>
2,881,208	939,968	3,821,176	202,566
3,529,371	-	3,529,371	90,842
6,938,580	79,336	7,017,916	11,392
1,160,617	7,259	1,167,876	103,043
559,550	6,569	566,119	31,688
585,686	1,784	587,470	5,596
1,009,495	-	1,009,495	20,206
1,799,990	809	1,800,799	15,201
300,141	25,459	325,600	-
446,104	-	446,104	689
876,890	-	876,890	-
388,126	-	388,126	-
<u>20,475,758</u>	<u>1,061,184</u>	<u>21,536,942</u>	<u>481,223</u>
<u>(739,536)</u>	<u>(1,061,184)</u>	<u>(1,800,720)</u>	<u>674,834</u>
557,877	-	557,877	1,000
(10,985)	-	(10,985)	(985)
<u>546,892</u>	<u>-</u>	<u>546,892</u>	<u>15</u>
(192,644)	(1,061,184)	(1,253,828)	674,849
<u>3,225,801</u>	<u>3,225,801</u>	<u>3,225,801</u>	<u>-</u>
<u>\$ 3,033,157</u>	<u>\$ 2,164,617</u>	<u>\$ 1,971,973</u>	<u>\$ 674,849</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS (ASSOCIATION)

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)
01/01/09	\$ 520,089,855	\$ 966,564,614	\$ 446,474,759	53.8%	\$ 249,971,296	178.6%
01/01/07	517,396,087	825,863,068	308,466,981	62.6%	226,391,633	136.3%
01/01/06	465,637,984	765,747,723	300,109,739	60.8%	215,474,180	139.3%
01/01/04	378,317,300	647,655,411	269,338,111	58.4%	190,614,004	141.3%
01/01/02	362,911,896	553,531,966	190,620,070	65.6%	173,610,557	109.8%
01/01/00	300,396,700	462,462,500	162,065,800	65.0%	152,293,100	106.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (ASSOCIATION)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2005	\$ 30,224,666	100
2006	32,038,146	100
2007	34,360,912	100
2008	36,982,873	100
2009	39,899,322	100
2010	43,893,051	100

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

TOWN SHARE OF ASSOCIATION ARC

Fiscal Year Ended June 30	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of Association ARC (%)
2006	\$ 619,645	100	2.1%
2007	647,322	100	2.0%
2008	737,832	100	2.1%
2009	830,623	100	2.2%
2010	936,887	100	2.3%
2011	1,029,701	100	2.3%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the Town's other postemployment 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)
07/01/06	\$ -	\$ 22,423,942	\$ 22,423,942	0.0%	\$ 8,031,129	279.2%
07/01/08	-	25,192,248	25,192,248	0.0%	8,185,161	307.8%
07/01/10	-	27,281,696	27,281,696	0.0%	8,522,210	320.1%

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>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 19,736,222	\$ 21,536,942
<u>Reclassifications</u>		
Activity of stabilization fund recorded in the general fund for GAAP purposes.....	537	-
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	1,995	-
To record activity for MTRS on-behalf payments.....	401,462	401,462
To record activity for MWPAT subsidy.....	40,309	40,309
To record encumbrances and continuing appropriations.....	-	(1,061,184)
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 20,180,525</u>	<u>\$ 20,917,529</u>

NOTE B - PENSION PLAN

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

Valuation date:	January 1, 2009
Actuarial cost method:	Entry age normal cost
Amortization method:	Increasing payments 4.50% per year after fiscal year 2013
Remaining amortization period:	19 years from July 1, 2009 for 2002 and 2003 Early Retirement Incentives and remaining unfunded liability
Asset valuation method:	5-year smoothing of investment returns greater (less) than expected
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.25%
Projected salary increases:	5.00%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income