

TOWN OF EASTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107

Andover, MA 01810-1096

(978) 749-0005 • Fax (978) 749-0006

www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Easton, Massachusetts

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

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

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

The Management's Discussion and Analysis appearing on the following pages, and the required supplementary information appearing on page 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have

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applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
April 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Easton, we offer readers this narrative overview and analysis of the financial activities of the Town of Easton for the fiscal year ended June 30, 2011. Unless otherwise noted, the amounts reported in Management's Discussion and Analysis are reported in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, interest on debt, and intergovernmental assessments. The business-type activities include water and trash enterprise fund activities.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

Proprietary funds. Proprietary funds are maintained as follows:

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

The Proprietary fund provides the same type of information as the business-type activities reported in the government-wide financial statements.

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

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total assets for governmental activities exceeded liabilities by \$ 81,070 (i.e., net assets), a change of \$ (8,035) in comparison to the prior year.
- As of the close of the current fiscal year, total assets for business-type activities exceeded liabilities by \$ 34,140 (i.e., net assets), a change of \$ (363) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,772, a change of \$ 712 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 1,771, a change of \$ (681) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 40,866, a change of \$ (2,443) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Totals</u> | |
|--|------------------------------------|------------------|-------------------------------------|------------------|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Current and other assets | \$ 31,053 | \$ 32,339 | \$ 2,582 | \$ 2,311 | \$ 33,635 | \$ 34,650 |
| Capital assets | 114,869 | 118,707 | 34,488 | 34,912 | 149,357 | 153,619 |
| Total assets | <u>145,922</u> | <u>151,046</u> | <u>37,070</u> | <u>37,223</u> | <u>182,992</u> | <u>188,269</u> |
| Long-term liabilities | 59,319 | 55,712 | 2,773 | 2,689 | 62,092 | 58,401 |
| Notes payable | 3,000 | 3,000 | 130 | - | 3,130 | 3,000 |
| Other liabilities | 2,533 | 3,229 | 27 | 31 | 2,560 | 3,260 |
| Total liabilities | <u>64,852</u> | <u>61,941</u> | <u>2,930</u> | <u>2,720</u> | <u>67,782</u> | <u>64,661</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 73,411 | 74,746 | 32,182 | 32,569 | 105,593 | 107,315 |
| Restricted | 14,527 | 13,295 | - | - | 14,527 | 13,295 |
| Unrestricted | <u>(6,868)</u> | <u>1,064</u> | <u>1,958</u> | <u>1,934</u> | <u>(4,910)</u> | <u>2,998</u> |
| Total net assets | <u>\$ 81,070</u> | <u>\$ 89,105</u> | <u>\$ 34,140</u> | <u>\$ 34,503</u> | <u>\$ 115,210</u> | <u>\$ 123,608</u> |

CHANGES IN NET ASSETS

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Totals</u> | |
|--|---------------------|------------------|----------------------|------------------|-------------------|-------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,839 | \$ 3,252 | \$ 3,556 | \$ 3,388 | \$ 6,395 | \$ 6,640 |
| Operating grants and contributions | 17,859 | 17,603 | - | - | 17,859 | 17,603 |
| Capital grants and contributions | 805 | 1,394 | 83 | 258 | 888 | 1,652 |
| General revenues: | | | | | | |
| Property Taxes | 42,991 | 42,303 | - | - | 42,991 | 42,303 |
| Excises | 2,878 | 2,691 | - | - | 2,878 | 2,691 |
| Penalties, interest and other taxes | 414 | 344 | - | - | 414 | 344 |
| Grants and contributions not restricted to specific programs | 2,267 | 2,383 | - | - | 2,267 | 2,383 |
| Investment income | 183 | 341 | 16 | 56 | 199 | 397 |
| Other | 3,332 | 2,723 | - | - | 3,332 | 2,723 |
| Total revenues | <u>73,568</u> | <u>73,034</u> | <u>3,655</u> | <u>3,702</u> | <u>77,223</u> | <u>76,736</u> |
| Expenses: | | | | | | |
| General government | 13,796 | 13,813 | - | - | 13,796 | 13,813 |
| Public safety | 9,241 | 9,058 | - | - | 9,241 | 9,058 |
| Education | 50,131 | 48,191 | - | - | 50,131 | 48,191 |
| Public works | 5,024 | 4,463 | - | - | 5,024 | 4,463 |
| Health and human services | 884 | 822 | - | - | 884 | 822 |
| Culture and recreation | 779 | 843 | - | - | 779 | 843 |
| Interest and costs | 1,659 | 1,684 | - | - | 1,659 | 1,684 |
| Intergovernmental | 637 | 643 | - | - | 637 | 643 |
| Water services | - | - | 2,728 | 2,255 | 2,728 | 2,255 |
| Trash services | - | - | 742 | 740 | 742 | 740 |
| Total expenses | <u>82,151</u> | <u>79,517</u> | <u>3,470</u> | <u>2,995</u> | <u>85,621</u> | <u>82,512</u> |
| Change in net assets before transfers and loss | (8,583) | (6,483) | 185 | 707 | (8,398) | (5,776) |
| Transfer in (out) | 548 | 548 | (548) | (548) | - | - |
| Change in net assets | (8,035) | (5,935) | (363) | 159 | (8,398) | (5,776) |
| Net assets - beginning of year | <u>89,105</u> | <u>95,040</u> | <u>34,503</u> | <u>34,344</u> | <u>123,608</u> | <u>129,384</u> |
| Net assets - end of year | <u>\$ 81,070</u> | <u>\$ 89,105</u> | <u>\$ 34,140</u> | <u>\$ 34,503</u> | <u>\$ 115,210</u> | <u>\$ 123,608</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 115,210, a change of \$ (8,398) from the prior year.

The largest portion of net assets \$ 105,593 reflects our investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 14,527 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$ (4,910).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (8,035). Key elements of this change are as follows (in thousands):

| | |
|---|-------------------|
| General fund expenditures over revenues | \$ (1,888) |
| General fund transfer in from Enterprise funds (indirect costs) | 548 |
| Community Preservation fund excess of revenues and transfers in over expenditures and transfers out | 602 |
| Depreciation in excess of debt service principal paydown | (2,071) |
| Net OPEB obligation increase | (6,112) |
| Capital assets acquired from current year revenues | 655 |
| Other | <u>231</u> |
| Total | <u>\$ (8,035)</u> |

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (363). The key element of this decrease was engineering expenditures for a comprehensive wastewater management plan.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular,

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 16,772, a change of \$ 712 in comparison to the prior year. Key elements of this change is as follows:

| | |
|---|---------------|
| General fund excess of expenditures over revenues | \$ (1,888) |
| Enterprise fund transfer (indirect costs) | 548 |
| Community Preservation fund excess of revenues over expenditures | 1,027 |
| Non-Major governmental funds excess of revenues over expenditures | 180 |
| Issuance of debt | <u>845</u> |
| Total | <u>\$ 712</u> |

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

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 1,771, while total fund balance was \$ 5,336. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

| <u>General Fund</u> | <u>6/30/11</u> | <u>6/30/10</u> | <u>Change</u> | <u>% of Total General Fund Expenditures</u> |
|---------------------------------|----------------|----------------|---------------|---|
| Unassigned fund balance | \$ 1,771 | \$ 2,452 | \$ (681) | 2.6% |
| Total fund balance ¹ | 5,336 | 6,212 | (876) | 7.8% |

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

The total fund balance of the general fund changed by \$ (876) during the current fiscal year. Key factors in this change are as follows:

| | |
|--|-----------------|
| Use of free cash and overlay surplus as a funding source | \$ (628) |
| Use of stabilization fund, net | (1,266) |
| Revenues in excess of budget | 640 |
| Expenditures in excess of budget | (117) |
| Other | <u>495</u> |
| Total | <u>\$ (876)</u> |

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

| | <u>6/30/11</u> | <u>6/30/10</u> | <u>Change</u> |
|---------|-----------------|-----------------|-------------------|
| General | \$ 814 | \$ 2,082 | \$ (1,268) |
| Capital | <u>402</u> | <u>400</u> | <u>2</u> |
| Total | <u>\$ 1,216</u> | <u>\$ 2,482</u> | <u>\$ (1,266)</u> |

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 1,958, a change of \$ 24 over the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 380. Major reasons for these amendments include (in thousands):

- \$ 301 increase to legal and school budgets, funded by available litigation funds and funds received from Project Spoke.
- \$ 89 miscellaneous increases funded by overlay surplus and transfers from stabilization.
- \$ (10) net decrease in employee benefits and insurance

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 149,357 (net of accumulated depreciation), a change of \$ (4,262) from the prior year. This investment in capital assets

includes land, buildings and system, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following (in thousands):

- Water infrastructure improvements of approximately \$ 442.
- Highway infrastructure improvements of approximately \$ 591.
- Purchase of DPW, Police, and Special Education vehicles of approximately \$ 340.

Change in credit rating. During the fiscal year, the Moody's credit rating improved from A2 in the previous year to Aa3 in the current year.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 40,866, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

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

Office of the Town Accountant
Town of Easton, Massachusetts
136 Elm Street
North Easton, Massachusetts 02356

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2011

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------------|------------------------------|
| ASSETS | | | |
| Current: | | | |
| Cash and short-term investments | \$ 14,348,220 | \$ 592,593 | \$ 14,940,813 |
| Investments | 7,063,231 | 714,532 | 7,777,763 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 1,411,372 | - | 1,411,372 |
| Excise | 203,769 | - | 203,769 |
| Charges for service | - | 1,089,583 | 1,089,583 |
| Betterments | 31,894 | - | 31,894 |
| Departmental and other | 444,169 | - | 444,169 |
| Intergovernmental | 1,297,501 | 129,936 | 1,427,437 |
| Inventories | - | 54,838 | 54,838 |
| Noncurrent: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 348,727 | - | 348,727 |
| Intergovernmental | 5,903,876 | - | 5,903,876 |
| Capital assets, not being depreciated | 8,782,598 | 3,085,138 | 11,867,736 |
| Capital assets, being depreciated net of accumulated depreciation | <u>106,086,434</u> | <u>31,402,899</u> | <u>137,489,333</u> |
| TOTAL ASSETS | 145,921,791 | 37,069,519 | 182,991,310 |
| LIABILITIES | | | |
| Current: | | | |
| Warrants payable | 948,986 | - | 948,986 |
| Accrued liabilities | 1,224,772 | 27,406 | 1,252,178 |
| Deposits held in custody | 70,099 | - | 70,099 |
| Notes payable | 3,000,000 | 129,936 | 3,129,936 |
| Other current liabilities | 289,384 | - | 289,384 |
| Current portion of long-term liabilities: | | | |
| Bonds payable | 3,437,418 | 581,476 | 4,018,894 |
| Accrued employee benefits | 39,432 | 5,754 | 45,186 |
| Estimated landfill closure and postclosure liability | 50,000 | - | 50,000 |
| Noncurrent: | | | |
| Bonds payable | 35,107,119 | 1,740,000 | 36,847,119 |
| Accrued employee benefits | 749,201 | 109,332 | 858,533 |
| Estimated landfill closure and postclosure liability | 1,000,000 | - | 1,000,000 |
| Net OPEB obligation | <u>18,935,641</u> | <u>335,688</u> | <u>19,271,329</u> |
| TOTAL LIABILITIES | 64,852,052 | 2,929,592 | 67,781,644 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 73,410,534 | 32,181,625 | 105,592,159 |
| Restricted for: | | | |
| Grants and other statutory restrictions | 14,455,508 | - | 14,455,508 |
| Permanent funds: | | | |
| Nonexpendable | 46,031 | - | 46,031 |
| Expendable | 25,186 | - | 25,186 |
| Unrestricted | <u>(6,867,520)</u> | <u>1,958,302</u> | <u>(4,909,218)</u> |
| TOTAL NET ASSETS | \$ <u>81,069,739</u> | \$ <u>34,139,927</u> | \$ <u>115,209,666</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

| | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Assets | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| General government | \$ 13,795,595 | \$ 202,565 | \$ 82,857 | \$ - | \$ (13,510,173) | \$ - | \$ (13,510,173) |
| Public safety | 9,241,387 | 1,546,132 | 208,471 | - | (7,486,784) | - | (7,486,784) |
| Education | 50,130,564 | 776,307 | 17,356,556 | - | (31,997,701) | - | (31,997,701) |
| Public works | 5,024,525 | 45 | - | 804,662 | (4,219,818) | - | (4,219,818) |
| Health and human services | 884,354 | 115,477 | 185,266 | - | (583,611) | - | (583,611) |
| Culture and recreation | 778,814 | 198,889 | 26,179 | - | (553,746) | - | (553,746) |
| Interest | 1,658,720 | - | - | - | (1,658,720) | - | (1,658,720) |
| Intergovernmental | 637,032 | - | - | - | (637,032) | - | (637,032) |
| Total Governmental Activities | 82,150,991 | 2,839,415 | 17,859,329 | 804,662 | (60,647,585) | - | (60,647,585) |
| Business-Type Activity: | | | | | | | |
| Water services | 2,728,042 | 2,790,583 | - | 83,394 | - | 145,935 | 145,935 |
| Trash services | 742,305 | 764,917 | - | - | - | 22,612 | 22,612 |
| Total Business-Type Activities | 3,470,347 | 3,555,500 | - | 83,394 | - | 168,547 | 168,547 |
| Total Primary Government | \$ <u>85,621,338</u> | \$ <u>6,394,915</u> | \$ <u>17,859,329</u> | \$ <u>888,056</u> | (60,647,585) | 168,547 | (60,479,038) |
| General Revenues and Transfers: | | | | | | | |
| Property taxes | | | | | 42,990,759 | - | 42,990,759 |
| Excises | | | | | 2,877,586 | - | 2,877,586 |
| Penalties, interest and other taxes | | | | | 414,207 | - | 414,207 |
| Grants and contributions not restricted to specific programs | | | | | 2,266,712 | - | 2,266,712 |
| Investment income | | | | | 183,274 | 16,084 | 199,358 |
| Miscellaneous | | | | | 3,332,399 | - | 3,332,399 |
| Transfers, net | | | | | 547,753 | (547,753) | - |
| Total general revenues and transfers | | | | | 52,612,690 | (531,669) | 52,081,021 |
| Change in Net Assets | | | | | (8,034,895) | (363,122) | (8,398,017) |
| Net Assets: | | | | | | | |
| Beginning of year | | | | | 89,104,634 | 34,503,049 | 123,607,683 |
| End of year | | | | | \$ <u>81,069,739</u> | \$ <u>34,139,927</u> | \$ <u>115,209,666</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

| | <u>General</u> | <u>Community Preservation Fund</u> | <u>School Building Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---------------------|--|-------------------------------------|--|---|
| ASSETS | | | | | |
| Cash and short-term investments | \$ 5,619,637 | \$ 5,506,670 | \$ 4,386 | \$ 3,217,527 | \$ 14,348,220 |
| Investments | 1,216,661 | 5,587,449 | - | 259,121 | 7,063,231 |
| Receivables: | | | | | |
| Property taxes | 1,920,063 | - | - | - | 1,920,063 |
| Excises | 382,768 | - | - | - | 382,768 |
| Betterments | - | - | - | 31,894 | 31,894 |
| Departmental | 528,138 | 27,709 | - | 48,543 | 604,390 |
| Intergovernmental | 41,210 | - | - | 272,311 | 313,521 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 9,708,477</u> | <u>\$ 11,121,828</u> | <u>\$ 4,386</u> | <u>\$ 3,829,396</u> | <u>\$ 24,664,087</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Warrants payable | \$ 946,636 | \$ - | \$ - | \$ 2,350 | \$ 948,986 |
| Accrued liabilities | 643,366 | - | - | - | 643,366 |
| Deferred revenues | 2,563,709 | 27,709 | - | 349,262 | 2,940,680 |
| Deposits held in custody | - | - | - | 70,099 | 70,099 |
| Notes payable | - | - | 3,000,000 | - | 3,000,000 |
| Other liabilities | 218,969 | - | - | 70,415 | 289,384 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | 4,372,680 | 27,709 | 3,000,000 | 492,126 | 7,892,515 |
| Fund Balances: | | | | | |
| Nonspendable | - | - | - | 46,031 | 46,031 |
| Restricted | - | 11,094,119 | - | 3,536,425 | 14,630,544 |
| Committed | 1,811,242 | - | - | - | 1,811,242 |
| Assigned | 1,753,132 | - | - | - | 1,753,132 |
| Unassigned | 1,771,423 | - | (2,995,614) | (245,186) | (1,469,377) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL FUND BALANCES | <u>5,335,797</u> | <u>11,094,119</u> | <u>(2,995,614)</u> | <u>3,337,270</u> | <u>16,771,572</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 9,708,477</u> | <u>\$ 11,121,828</u> | <u>\$ 4,386</u> | <u>\$ 3,829,396</u> | <u>\$ 24,664,087</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND
 BALANCES TO NET ASSETS OF GOVERNMENTAL
 ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2011

| | |
|---|------------------------------------|
| Total governmental fund balances | \$ 16,771,572 |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 114,869,032 |
| • Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 2,441,496 |
| • MSBA reimbursements for contracted assistance and progress payment projects, are not receivable in the current period and, therefore, are not reported in the governmental funds. | 6,887,856 |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (581,406) |
| • Long-term liabilities, including bonds payable and net OPEB obligation, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(59,318,811)</u> |
| Net assets of governmental activities | <u><u>\$ 81,069,739</u></u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>General</u> | <u>Community Preservation Fund</u> | <u>School Building Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|--|-------------------------------------|--|---|
| Revenues: | | | | | |
| Property taxes | \$ 42,375,788 | \$ 913,508 | \$ - | \$ 3,376 | \$ 43,292,672 |
| Excises | 2,915,169 | - | - | - | 2,915,169 |
| Departmental | 646,653 | - | - | 1,419,694 | 2,066,347 |
| Licenses and permits | 794,714 | - | - | - | 794,714 |
| Fines and forfeitures | 409,704 | 2,746 | - | 1,758 | 414,208 |
| Intergovernmental | 18,217,651 | 289,934 | - | 3,407,097 | 21,914,682 |
| Investment income | 29,357 | 131,569 | - | 22,348 | 183,274 |
| Other | 1,074,432 | - | - | 2,257,966 | 3,332,398 |
| Total Revenues | <u>66,463,468</u> | <u>1,337,757</u> | <u>-</u> | <u>7,112,239</u> | <u>74,913,464</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 12,052,774 | 18,552 | - | 642,904 | 12,714,230 |
| Public safety | 7,470,938 | - | - | 725,334 | 8,196,272 |
| Education | 38,584,603 | - | - | 4,160,261 | 42,744,864 |
| Public works | 3,261,356 | - | - | 1,152,917 | 4,414,273 |
| Human services | 793,185 | - | - | 12,591 | 805,776 |
| Culture and recreation | 467,722 | - | - | 237,843 | 705,565 |
| Debt service | 4,861,237 | 108,425 | - | - | 4,969,662 |
| Intergovernmental | 637,032 | - | - | - | 637,032 |
| Capital outlay | 222,718 | 184,065 | - | - | 406,783 |
| Total Expenditures | <u>68,351,565</u> | <u>311,042</u> | <u>-</u> | <u>6,931,850</u> | <u>75,594,457</u> |
| Excess (deficiency) of revenues over expenditures | (1,888,097) | 1,026,715 | - | 180,389 | (680,993) |
| Other Financing Sources (Uses): | | | | | |
| Issuance of debt | - | - | - | 845,000 | 845,000 |
| Transfers in | 1,059,987 | 15,000 | - | 487,843 | 1,562,830 |
| Transfers out | (47,843) | (440,000) | - | (527,234) | (1,015,077) |
| Total Other Financing Sources (Uses) | <u>1,012,144</u> | <u>(425,000)</u> | <u>-</u> | <u>805,609</u> | <u>1,392,753</u> |
| Change in fund balance | (875,953) | 601,715 | - | 985,998 | 711,760 |
| Fund Balance, at Beginning of Year, as reclassified | <u>6,211,750</u> | <u>10,492,404</u> | <u>(2,995,614)</u> | <u>2,351,272</u> | <u>16,059,812</u> |
| Fund Balance, at End of Year | <u>\$ 5,335,797</u> | <u>\$ 11,094,119</u> | <u>\$ (2,995,614)</u> | <u>\$ 3,337,270</u> | <u>\$ 16,771,572</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2011

| | | | | | | | | | | | | | | | | | | | | | |
|---|------------------------------|-----------|-------------------|-------------|--|-----------|--|-----------|------------------|-----------|--------------------|-----------|--|--------|---------------------------------|-------------|---|--------|--------------------------------|---------------|--|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ 711,760 | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> 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: <table> <tr> <td style="padding-left: 40px;">Capital outlay, net</td> <td style="text-align: right;">1,483,723</td> </tr> <tr> <td style="padding-left: 40px;">Depreciation, net</td> <td style="text-align: right;">(5,321,967)</td> </tr> </table> 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. <table> <tr> <td></td> <td style="text-align: right;">(361,141)</td> </tr> </table> Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table> <tr> <td></td> <td style="text-align: right;">(983,980)</td> </tr> </table> The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table> <tr> <td style="padding-left: 40px;">Issuance of debt</td> <td style="text-align: right;">(845,000)</td> </tr> <tr> <td style="padding-left: 40px;">Repayments of debt</td> <td style="text-align: right;">3,266,805</td> </tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td> <td style="text-align: right;">44,137</td> </tr> </table> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td style="padding-left: 40px;">Increase in Net OPEB obligation</td> <td style="text-align: right;">(6,111,754)</td> </tr> <tr> <td style="padding-left: 40px;">Decrease in compensated absence liability</td> <td style="text-align: right;">32,522</td> </tr> <tr> <td style="padding-left: 40px;">Decrease in landfill liability</td> <td style="text-align: right;"><u>50,000</u></td> </tr> </table> | Capital outlay, net | 1,483,723 | Depreciation, net | (5,321,967) | | (361,141) | | (983,980) | Issuance of debt | (845,000) | Repayments of debt | 3,266,805 | | 44,137 | Increase in Net OPEB obligation | (6,111,754) | Decrease in compensated absence liability | 32,522 | Decrease in landfill liability | <u>50,000</u> | |
| Capital outlay, net | 1,483,723 | | | | | | | | | | | | | | | | | | | | |
| Depreciation, net | (5,321,967) | | | | | | | | | | | | | | | | | | | | |
| | (361,141) | | | | | | | | | | | | | | | | | | | | |
| | (983,980) | | | | | | | | | | | | | | | | | | | | |
| Issuance of debt | (845,000) | | | | | | | | | | | | | | | | | | | | |
| Repayments of debt | 3,266,805 | | | | | | | | | | | | | | | | | | | | |
| | 44,137 | | | | | | | | | | | | | | | | | | | | |
| Increase in Net OPEB obligation | (6,111,754) | | | | | | | | | | | | | | | | | | | | |
| Decrease in compensated absence liability | 32,522 | | | | | | | | | | | | | | | | | | | | |
| Decrease in landfill liability | <u>50,000</u> | | | | | | | | | | | | | | | | | | | | |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ <u>(8,034,895)</u> | | | | | | | | | | | | | | | | | | | | |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|-----------------------|---|
| | <u>Original Budget</u> | <u>Final Budget</u> | | |
| Revenues and Other Sources: | | | | |
| Property taxes | \$ 42,360,623 | \$ 42,351,102 | \$ 42,351,102 | \$ - |
| Motor vehicle excise | 2,600,000 | 2,600,000 | 2,915,169 | 315,169 |
| Licenses, permits and fees | 1,420,000 | 1,420,000 | 1,441,367 | 21,367 |
| Fines and forfeitures | 288,000 | 288,000 | 409,704 | 121,704 |
| Intergovernmental | 12,318,933 | 12,318,933 | 12,358,838 | 39,905 |
| Investment income | 30,000 | 30,000 | 24,688 | (5,312) |
| Other revenue | 623,339 | 924,339 | 1,070,774 | 146,435 |
| Transfers in | 2,259,500 | 2,309,752 | 2,310,239 | 487 |
| Use of free cash | 387,546 | 387,546 | 387,546 | - |
| Other sources | 201,774 | 240,173 | 240,173 | - |
| Total Revenues and Other Sources | 62,489,715 | 62,869,845 | 63,509,600 | 639,755 |
| Expenditures and Other Uses: | | | | |
| General government | 12,526,880 | 12,379,064 | 12,146,449 | 232,615 |
| Public safety | 7,368,137 | 7,461,979 | 7,461,973 | 6 |
| Education | 32,640,817 | 32,926,817 | 32,926,809 | 8 |
| Public works | 2,499,936 | 2,523,336 | 2,474,183 | 49,153 |
| Snow and Ice Removal | 188,700 | 188,700 | 797,175 | (608,475) |
| Health and human services | 702,253 | 796,360 | 795,337 | 1,023 |
| Culture and recreation | 462,125 | 467,722 | 467,722 | - |
| Capital outlay | 236,500 | 236,500 | 236,500 | - |
| Debt service | 4,992,270 | 4,992,270 | 4,790,328 | 201,942 |
| Intergovernmental | 643,901 | 643,901 | 637,032 | 6,869 |
| Transfers out | 2,843 | 27,843 | 27,843 | - |
| Other uses | 225,353 | 225,353 | 225,353 | - |
| Total Expenditures and Other Uses | 62,489,715 | 62,869,845 | 62,986,704 | (116,859) |
| Excess of revenues and other sources over expenditures and other uses | \$ <u>-</u> | \$ <u>-</u> | \$ <u>522,896</u> | \$ <u>522,896</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2011

| | Business-Type Activities Enterprise Fund | | |
|--|---|-------------------|----------------------|
| | Water Fund | Nonmajor Fund | Total |
| <u>ASSETS</u> | | | |
| Current: | | | |
| Cash and short-term investments | \$ 332,737 | \$ 259,856 | \$ 592,593 |
| Investments | 714,532 | - | 714,532 |
| Receivables: | | | |
| Charges for service, net of allowance for uncollectibles | 876,379 | 213,204 | 1,089,583 |
| Intergovernmental | 129,936 | - | 129,936 |
| Inventory | 54,838 | - | 54,838 |
| Total current assets | 2,108,422 | 473,060 | 2,581,482 |
| Noncurrent: | | | |
| Capital assets, not being depreciated | 3,085,138 | - | 3,085,138 |
| Capital assets being depreciated, net of accumulated depreciation | 31,402,899 | - | 31,402,899 |
| Total noncurrent assets | 34,488,037 | - | 34,488,037 |
| TOTAL ASSETS | 36,596,459 | 473,060 | 37,069,519 |
| <u>LIABILITIES</u> | | | |
| Current: | | | |
| Accrued liabilities | 27,406 | - | 27,406 |
| Notes payable | 129,936 | - | 129,936 |
| Current portion of long-term liabilities: | | | |
| Bonds payable | 551,476 | 30,000 | 581,476 |
| Accrued employee benefits | 5,754 | - | 5,754 |
| Total current liabilities | 714,572 | 30,000 | 744,572 |
| Noncurrent: | | | |
| Bonds payable | 1,625,000 | 115,000 | 1,740,000 |
| Accrued employee benefits | 109,332 | - | 109,332 |
| Net OPEB obligation | 335,688 | - | 335,688 |
| Total noncurrent liabilities | 2,070,020 | 115,000 | 2,185,020 |
| TOTAL LIABILITIES | 2,784,592 | 145,000 | 2,929,592 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 32,181,625 | - | 32,181,625 |
| Unrestricted | 1,630,242 | 328,060 | 1,958,302 |
| TOTAL NET ASSETS | \$ 33,811,867 | \$ 328,060 | \$ 34,139,927 |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

| | Business-Type Activities Enterprise Fund | | |
|--|---|--------------------------|----------------------|
| | <u>Water Fund</u> | <u>Nonmajor Fund</u> | <u>Total</u> |
| Operating Revenues: | | | |
| Charges for services | \$ 2,729,636 | \$ 759,961 | \$ 3,489,597 |
| Other | <u>60,947</u> | <u>4,956</u> | <u>65,903</u> |
| Total Operating Revenues | 2,790,583 | 764,917 | 3,555,500 |
| Operating Expenses: | | | |
| Personnel services | 990,860 | 15,000 | 1,005,860 |
| Purchase of services | 768,597 | 727,305 | 1,495,902 |
| Depreciation | <u>883,881</u> | <u>-</u> | <u>883,881</u> |
| Total Operating Expenses | <u>2,643,338</u> | <u>742,305</u> | <u>3,385,643</u> |
| Operating Income | 147,245 | 22,612 | 169,857 |
| Nonoperating Revenues (Expenses): | | | |
| Investment income | 16,084 | - | 16,084 |
| Interest expense | <u>(84,704)</u> | <u>-</u> | <u>(84,704)</u> |
| Total Nonoperating Revenues (Expenses), Net | <u>(68,620)</u> | <u>-</u> | <u>(68,620)</u> |
| Income (Loss) Before Contributions and Transfers | 78,625 | 22,612 | 101,237 |
| Transfers out | (547,753) | - | (547,753) |
| Capital contributions | <u>83,394</u> | <u>-</u> | <u>83,394</u> |
| Change in Net Assets | (385,734) | 22,612 | (363,122) |
| Net Assets at Beginning of Year | <u>34,197,601</u> | <u>305,448</u> | <u>34,503,049</u> |
| Net Assets at End of Year | <u>\$ 33,811,867</u> | <u>\$ 328,060</u> | <u>\$ 34,139,927</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2011

| | Business-Type Activities Enterprise Funds | | |
|---|--|-------------------|---------------------|
| | Water Fund | Nonmajor Fund | Total |
| <u>Cash Flows From Operating Activities:</u> | | | |
| Receipts from customers and users | \$ 2,928,956 | \$ 767,141 | \$ 3,696,097 |
| Payments to vendors and employees | <u>(1,627,865)</u> | <u>(742,305)</u> | <u>(2,370,170)</u> |
| Net Cash Provided By (Used For) Operating Activities | 1,301,091 | 24,836 | 1,325,927 |
| <u>Cash Flows From Noncapital Financing Activities:</u> | | | |
| Transfers out | <u>(547,753)</u> | <u>-</u> | <u>(547,753)</u> |
| Net Cash (Used For) Noncapital Financing Activities | (547,753) | - | (547,753) |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | | |
| Acquisition and construction of capital assets | (459,814) | - | (459,814) |
| Proceeds from issuance of bonds and notes | 529,936 | 145,000 | 674,936 |
| Principal payments on bonds and notes | (566,476) | - | (566,476) |
| Capital contributions | 167,767 | - | 167,767 |
| Interest expense | <u>(88,473)</u> | <u>-</u> | <u>(88,473)</u> |
| Net Cash Provided By (Used For) Capital and Related Financing Activities | (417,060) | 145,000 | (272,060) |
| <u>Cash Flows From Investing Activities:</u> | | | |
| Change in investments | (19,625) | - | (19,625) |
| Investment income | <u>16,084</u> | <u>-</u> | <u>16,084</u> |
| Net Cash Provided By Investing Activities | <u>(3,541)</u> | <u>-</u> | <u>(3,541)</u> |
| Net Change in Cash and Short-Term Investments | 332,737 | 169,836 | 502,573 |
| Cash and Short-Term Investments, Beginning of Year | <u>-</u> | <u>90,020</u> | <u>90,020</u> |
| Cash and Short-Term Investments, End of Year | <u>\$ 332,737</u> | <u>\$ 259,856</u> | <u>\$ 592,593</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u> | | | |
| Operating income | \$ 147,245 | \$ 22,612 | \$ 169,857 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation | 883,881 | - | 883,881 |
| Changes in assets and liabilities: | | | |
| Receivables | 138,373 | 2,224 | 140,597 |
| Inventory | 26,607 | - | 26,607 |
| Accrued liabilities | <u>104,985</u> | <u>-</u> | <u>104,985</u> |
| Net Cash Provided By Operating Activities | <u>\$ 1,301,091</u> | <u>\$ 24,836</u> | <u>\$ 1,325,927</u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2011

| | <u>Private Purpose Trust Funds</u> | <u>Agency Funds</u> |
|--|--|-------------------------|
| <u>ASSETS</u> | | |
| Cash and short-term investments | \$ 23,830 | \$ 1,078,601 |
| Investments | <u>159,457</u> | <u>-</u> |
| Total Assets | 183,287 | 1,078,601 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Other liabilities | <u>-</u> | <u>1,078,601</u> |
| Total Liabilities | <u>-</u> | <u>1,078,601</u> |
| <u>NET ASSETS</u> | | |
| Total net assets held in trust | \$ <u><u>183,287</u></u> | \$ <u><u>-</u></u> |

See notes to financial statements.

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

| | <u>Private Purpose Trust Funds</u> |
|--------------------|--|
| Additions: | |
| Investment income | \$ <u>29,831</u> |
| Total additions | 29,831 |
| Deductions: | |
| Other | <u>5,600</u> |
| Total deductions | <u>5,600</u> |
| Net increase | 24,231 |
| Net assets: | |
| Beginning of year | <u>159,056</u> |
| End of year | \$ <u><u>183,287</u></u> |

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Preservation Fund* - This fund accounts for activity associated with the Commonwealth's Community Preservation Act.

- The *School Building Fund* - This fund accounts for activity associated with the Oliver Ames High School and Easton Junior High School renovation/construction projects.

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

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

The government reports the following major proprietary funds:

- Water Enterprise Fund

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

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's

portion of this pool is reflected on the combined financial statements under the caption “cash and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

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

F. Property Tax Limitations

Legislation known as “Proposition 2½” has limited the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2011 tax levy reflected an excess capacity of \$ 3,754.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 40 |
| Building improvements | 20 |
| Infrastructure | 50 |
| Vehicles | 3 - 5 |
| Office equipment | 3 - 10 |
| Computer equipment | 3 - 5 |
| Furnishings | 5 |

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

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

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

Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

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

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the Board of Selectmen).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

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

L. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

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

| <u>General Fund</u> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP Basis) | \$ 66,463,468 | \$ 68,351,565 |
| Other financing sources/uses (GAAP Basis) | <u>1,059,987</u> | <u>47,843</u> |
| Subtotal (GAAP Basis) | 67,523,455 | 68,399,408 |
| To adjust property tax revenue to the budgetary basis | 12,705 | - |
| To reverse expenditures of prior year appropriation carryforwards | - | (366,695) |
| To book current year appropriation carryforwards | - | 471,517 |
| To record raising of prior year's overlay deficits | - | 225,353 |
| To record use of free cash and and other sources | 627,719 | - |
| To reverse GASB 24 MTRS | (5,857,529) | (5,857,529) |
| Other timing issues | (42,333) | 134,650 |
| Nonbudgeted items | <u>1,245,583</u> | <u>(20,000)</u> |
| Budgetary Basis | <u>\$ 63,509,600</u> | <u>\$ 62,986,704</u> |

C. Deficit Fund Equity

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

| | |
|----------------------------|----------------|
| School Building Major fund | \$ (2,995,614) |
| Chapter 90 Highway | \$ (186,155) |
| Police Detail | \$ (47,840) |
| Title I | \$ (5,251) |
| Title II | \$ (3,912) |
| Police Insurance Recovery | \$ (1,734) |
| Academic Support Services | \$ (294) |

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

3. Cash and Short-Term Investments

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

As of June 30, 2011, \$ 739,198 of the Town's bank balance of \$ 17,839,425 was exposed to custodial credit risk as uninsured or uncollateralized. \$ 728,394 of the Town's uninsured and uncollateralized amount is on deposit with the Massachusetts Municipal Depository Trust.

4. Investments

A. Credit Risk

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

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

| <u>Investment Type</u> | Fair <u>Value</u> | Exempt From <u>Disclosure</u> | <u>Rating as of Year-end</u> | | | |
|---------------------------|----------------------|-------------------------------------|------------------------------|--------------|---------------|--------------|
| | | | <u>Aaa</u> | <u>A</u> | <u>AA+</u> | <u>BBB-</u> |
| Certificates of deposits | \$ 1,293 | \$ 1,293 | \$ - | \$ - | \$ - | \$ - |
| Corporate bonds | 1,071 | - | - | 71 | 944 | 56 |
| Mutual funds | 703 | 703 | - | - | - | - |
| Federal agency securities | 4,726 | - | 4,726 | - | - | - |
| U.S. Treasury notes | 144 | - | 144 | - | - | - |
| Total investments | <u>\$ 7,937</u> | <u>\$ 1,996</u> | <u>\$ 4,870</u> | <u>\$ 71</u> | <u>\$ 944</u> | <u>\$ 56</u> |

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and Excess SIPC coverage.

C. Concentration of Credit Risk

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

| | |
|---------------------------------------|--------------|
| Federal National Mortgage Association | \$ 2,992,218 |
| Federal Home Loan Bank | \$ 1,304,551 |
| Federal Home Loan Mortgage | \$ 429,694 |

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

| | Fair Value | 1-5 | 6-10 | 10 + |
|---------------------------|-----------------|-----------------|---------------|---------------|
| Debt-related Securities: | | | | |
| Corporate bonds | \$ 1,071 | \$ 1,071 | \$ - | \$ - |
| Federal agency securities | 4,726 | 4,223 | 302 | 201 |
| U.S. Treasury notes | 144 | 144 | - | - |
| Total | \$ <u>5,941</u> | \$ <u>5,438</u> | \$ <u>302</u> | \$ <u>201</u> |

E. Foreign Currency Risk

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

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 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 a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

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

| | | |
|-------------------|-----------|-----------------|
| Real Estate | | |
| 2011 | \$ 631 | |
| Prior | <u>1</u> | |
| | | 632 |
| Personal Property | | |
| 2011 | 19 | |
| 2010 | 17 | |
| 2009 | 9 | |
| 2008 | 5 | |
| Prior | <u>22</u> | |
| | | 72 |
| Tax Liens | | 1,205 |
| Deferred Taxes | | <u>11</u> |
| Total | | <u>\$ 1,920</u> |

6. Allowance for Doubtful Accounts

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

| | <u>Governmental</u> | <u>Business-Type</u> |
|----------------|---------------------|----------------------|
| Property taxes | \$ 160 | \$ - |
| Excises | 179 | - |
| Departmental | 160 | - |
| Utilities | - | 182 |

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year grant funds. Future receipt of MSBA contract assistance payments are as follows:

| | |
|-----------|---------------------|
| 2012 | \$ 983,980 |
| 2013 | 983,980 |
| 2014 | 983,980 |
| 2015 | 983,980 |
| 2016 | 983,980 |
| 2017-2018 | <u>1,967,956</u> |
| Total | <u>\$ 6,887,856</u> |

8. Capital Assets

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 118,211 | \$ - | \$ - | \$ 118,211 |
| Machinery, equipment, and furnishings | 6,802 | 449 | (16) | 7,235 |
| Infrastructure | <u>33,973</u> | <u>672</u> | <u>-</u> | <u>34,645</u> |
| Total capital assets, being depreciated | 158,986 | 1,121 | (16) | 160,091 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (24,812) | (3,936) | - | (28,748) |
| Machinery, equipment, and furnishings | (5,012) | (402) | 16 | (5,398) |
| Infrastructure | <u>(18,859)</u> | <u>(1,000)</u> | <u>-</u> | <u>(19,859)</u> |
| Total accumulated depreciation | <u>(48,683)</u> | <u>(5,338)</u> | <u>16</u> | <u>(54,005)</u> |
| Total capital assets, being depreciated, net | 110,303 | (4,217) | - | 106,086 |

(continued)

(continued)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | 8,386 | - | - | 8,386 |
| Construction in progress | <u>18</u> | <u>379</u> | <u>-</u> | <u>397</u> |
| Total capital assets, not being depreciated | <u>8,404</u> | <u>379</u> | <u>-</u> | <u>8,783</u> |
| Governmental activities capital assets, net | <u>\$ 118,707</u> | <u>\$ (3,838)</u> | <u>\$ -</u> | <u>\$ 114,869</u> |
| | | | | |
| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 390 | \$ - | \$ - | \$ 390 |
| Machinery, equipment, and furnishings | 1,659 | 18 | - | 1,677 |
| Infrastructure | <u>42,261</u> | <u>798</u> | <u>(4)</u> | <u>43,055</u> |
| Total capital assets, being depreciated | 44,310 | 816 | (4) | 45,122 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (255) | (11) | - | (266) |
| Machinery, equipment, and furnishings | (748) | (147) | - | (895) |
| Infrastructure | <u>(11,836)</u> | <u>(726)</u> | <u>4</u> | <u>(12,558)</u> |
| Total accumulated depreciation | <u>(12,839)</u> | <u>(884)</u> | <u>4</u> | <u>(13,719)</u> |
| Total capital assets, being depreciated, net | 31,471 | (68) | - | 31,403 |
| Capital assets, not being depreciated: | | | | |
| Land | 3,085 | - | - | 3,085 |
| Construction in progress | <u>356</u> | <u>-</u> | <u>(356)</u> | <u>-</u> |
| Total capital assets, not being depreciated | <u>3,441</u> | <u>-</u> | <u>(356)</u> | <u>3,085</u> |
| Business-type activities capital assets, net | <u>\$ 34,912</u> | <u>\$ (68)</u> | <u>\$ (356)</u> | <u>\$ 34,488</u> |

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

Governmental Activities:

| | |
|--|-----------------|
| General government | \$ 47 |
| Public safety | 397 |
| Education | 3,722 |
| Public works | 1,125 |
| Culture and recreation | 27 |
| Health and human services | <u>20</u> |
| Total depreciation expense - governmental activities | <u>\$ 5,338</u> |

(continued)

(continued)

Business-Type Activities:

| | |
|---|---------------|
| Water | \$ 884 |
| Total depreciation expense - business-type activities | \$ <u>884</u> |

9. Warrants Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011.

10. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

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

11. Anticipation Notes Payable

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

| | <u>Interest</u> <u>Rate</u> | <u>Date of</u> <u>Issue</u> | <u>Date of</u> <u>Maturity</u> | <u>Balance at</u> <u>6/30/11</u> |
|-------------------|--------------------------------|--------------------------------|-----------------------------------|-------------------------------------|
| OAHS/EJHS project | 1.25% | 02/23/11 | 08/26/11 | \$ 3,000,000 |
| MWPAT | 0.24% | 05/05/11 | 12/31/12 | <u>129,936</u> |
| Total | | | | \$ <u>3,129,936</u> |

The following summarizes activity in notes payable during fiscal year 2011.

| | <u>Balance</u> <u>Beginning</u> <u>of Year</u> | <u>New</u> <u>Issues</u> | <u>Maturities</u> | <u>Balance</u> <u>End of</u> <u>Year</u> |
|-------------------|--|-----------------------------|---------------------|--|
| OAHS/EJHS project | \$ 3,000,000 | \$ 3,000,000 | \$ 3,000,000 | \$ 3,000,000 |
| MWPAT | - | 129,936 | - | 129,936 |
| Total | \$ <u>3,000,000</u> | \$ <u>3,129,936</u> | \$ <u>3,000,000</u> | \$ <u>3,129,936</u> |

12. Long-Term Debt

A. General Obligation Bonds

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

| | Serial Maturities Through | Interest Rate(s) % | Amount Outstanding as of 6/30/11 |
|--------------------------------------|---------------------------------|-----------------------|---|
| <u>Governmental Activities:</u> | | | |
| Land acquisition | 2012 | 4.40 - 6.00 | \$ 47,200 |
| Land conservation | 2012 | 4.40 - 6.00 | 51,325 |
| Landfill closure | 2017 | 3.25 - 4.50 | 480,000 |
| MWPAT sewer loan | 2020 | - | 68,691 |
| Landfill closure | 2023 | 3.00 - 4.20 | 1,440,000 |
| School Planning | 2023 | 3.00 - 4.20 | 1,140,000 |
| MWPAT wastewater study | 2023 | 3.00 - 5.00 | 77,321 |
| Library refunded | 2019 | 4.00 - 5.00 | 300,920 |
| Landfill closure - refunded | 2020 | 4.00 - 5.00 | 866,000 |
| Foundry street - refunded | 2020 | 4.00 - 5.00 | 137,600 |
| Concom Ind - Lewis Farms refunded | 2020 | 4.00 - 5.00 | 45,480 |
| School construction | 2026 | 4.00 - 5.00 | 17,055,000 |
| School construction - refunded | 2018 | 4.00 - 5.00 | 9,035,000 |
| Dean street land purchase | 2026 | 4.00 - 5.00 | 1,210,000 |
| Library addition | 2020 | 2.00 - 5.00 | 350,000 |
| Capital budget - DPW roof | 2020 | 2.00 - 5.00 | 105,000 |
| Capital budget - Ambulance | 2014 | 2.00 - 2.75 | 150,000 |
| School electrical updates | 2020 | 2.00 - 5.00 | 190,000 |
| Capital budget - stadium | 2024 | 2.00 - 5.00 | 1,190,000 |
| School construction | 2027 | 2.00 - 5.00 | 3,760,000 |
| School phone system | 2016 | 2.00 - 3.00 | 30,000 |
| NE Village Wastewater system | 2016 | 2.00 - 3.00 | 410,000 |
| Long pond dam repairs | 2016 | 2.00 - 3.00 | 80,000 |
| Public safety radios | 2016 | 2.00 - 3.00 | 60,000 |
| Inspectional services vehicles | 2016 | 2.00 - 3.00 | 13,000 |
| DPW equipment/vehicles | 2016 | 2.00 - 3.00 | 252,000 |
| Total Governmental Activities: | | | \$ <u>38,544,537</u> |

| <u>Business-Type Activities:</u> | Serial Maturities Through | Interest Rate(s)% | Amount Outstanding as of 6/30/11 |
|----------------------------------|---------------------------------|----------------------|---|
| Water mains | 2013 | 3.00 - 3.40 | \$ 220,000 |
| Water mains | 2013 | 3.00 - 3.40 | 60,000 |
| Land - Freitas | 2017 | 3.75 - 4.50 | 120,000 |
| Land conservation | 2012 | 4.40 - 6.00 | 21,476 |
| Town well | 2016 | 4.00 - 5.00 | 410,000 |
| Water meters | 2015 | 4.00 - 5.00 | 240,000 |
| Water tank painting | 2016 | 4.00 - 5.00 | 185,000 |
| Bay Road land acquisition | 2026 | 4.00 - 5.00 | 445,000 |
| Water tank painting | 2012 | 2.00 - 2.75 | 75,000 |
| Water main construction | 2016 | 2.00 - 3.00 | 400,000 |
| Recycling carts | 2016 | 2.00 - 3.00 | <u>145,000</u> |
| Total Business-Type Activities: | | | \$ <u>2,321,476</u> |

B. Future Debt Service

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

| <u>Government</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 3,437,418 | \$ 1,564,201 | \$ 5,001,619 |
| 2013 | 3,349,223 | 1,437,485 | 4,786,708 |
| 2014 | 3,320,171 | 1,303,100 | 4,623,271 |
| 2015 | 3,305,171 | 1,165,150 | 4,470,321 |
| 2016 | 3,325,034 | 1,025,979 | 4,351,013 |
| 2017-2021 | 12,237,595 | 3,183,846 | 15,421,441 |
| 2022-2026 | 9,334,925 | 1,035,329 | 10,370,254 |
| 2027 | <u>235,000</u> | <u>9,400</u> | <u>244,400</u> |
| Total | <u>\$ 38,544,537</u> | <u>\$ 10,724,490</u> | <u>\$ 49,269,027</u> |

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 581,476 | \$ 82,711 | \$ 664,187 |
| 2013 | 485,000 | 62,784 | 547,784 |
| 2014 | 335,000 | 44,499 | 379,499 |
| 2015 | 335,000 | 31,149 | 366,149 |
| 2016 | 270,000 | 20,236 | 290,236 |
| 2017-2021 | 170,000 | 47,156 | 217,156 |
| 2022-2026 | <u>145,000</u> | <u>14,691</u> | <u>159,691</u> |
| Total | \$ <u>2,321,476</u> | \$ <u>303,226</u> | \$ <u>2,624,702</u> |

C. Changes in General Long-Term Liabilities

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

| | <u>Total Balance 7/1/10</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Balance 6/30/11</u> | <u>Less Current Portion</u> | <u>Equals Long-Term Portion 6/30/11</u> |
|--------------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|-------------------------------------|---|
| <u>Governmental Activities</u> | | | | | | |
| General obligation debt | \$ 40,966 | \$ 845 | \$ (3,266) | \$ 38,545 | \$ (3,437) | \$ 35,108 |
| Accrued employee benefits | 821 | 7 | (39) | 789 | (39) | 750 |
| Landfill closure | 1,100 | - | (50) | 1,050 | (50) | 1,000 |
| Net OPEB obligation | <u>12,824</u> | <u>8,995</u> | <u>(2,883)</u> | <u>18,936</u> | <u>-</u> | <u>18,936</u> |
| Totals | \$ <u>55,711</u> | \$ <u>9,847</u> | \$ <u>(6,238)</u> | \$ <u>59,320</u> | \$ <u>(3,526)</u> | \$ <u>55,794</u> |

| | <u>Total Balance 7/1/10</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Balance 6/30/11</u> | <u>Less Current Portion</u> | <u>Equals Long-Term Portion 6/30/11</u> |
|---------------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|-------------------------------------|---|
| <u>Business-Type Activities</u> | | | | | | |
| Bonds payable | \$ 2,343 | \$ 545 | \$ (567) | \$ 2,321 | \$ (581) | \$ 1,740 |
| Accrued employee benefits | 111 | 4 | - | 115 | (6) | 109 |
| Net OPEB obligation | <u>235</u> | <u>134</u> | <u>(33)</u> | <u>336</u> | <u>-</u> | <u>336</u> |
| Totals | \$ <u>2,689</u> | \$ <u>683</u> | \$ <u>(600)</u> | \$ <u>2,772</u> | \$ <u>(587)</u> | \$ <u>2,185</u> |

13. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

In fiscal year 2011, the Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2011:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2011:

| | General Fund | Community Preservation Fund | School Building Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------------|---------------------|-----------------------------------|----------------------------|-----------------------------------|--------------------------------|
| Nonspendable | | | | | |
| Nonexpendable permanent funds | \$ - | \$ - | \$ - | \$ 46,031 | \$ 46,031 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 46,031</u> | <u>\$ 46,031</u> |
| Restricted | | | | | |
| Bonded projects | \$ - | \$ - | \$ - | \$ 81,653 | \$ 81,653 |
| Special revenue funds | - | - | - | 2,372,722 | 2,372,722 |
| Expendable permanent funds | - | - | - | 1,082,050 | 1,082,050 |
| Community preservation funds | - | 11,094,119 | - | - | 11,094,119 |
| | <u>\$ -</u> | <u>\$ 11,094,119</u> | <u>\$ -</u> | <u>\$ 3,536,425</u> | <u>\$ 14,630,544</u> |
| Committed | | | | | |
| Non-lapsing capital appropriations | \$ 594,581 | \$ - | \$ - | \$ - | \$ 594,581 |
| Stabilization funds | 1,216,661 | - | - | - | 1,216,661 |
| | <u>\$ 1,811,242</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,811,242</u> |
| Assigned | | | | | |
| Encumbrances | \$ 152,597 | \$ - | \$ - | \$ - | \$ 152,597 |
| Reserved for expenditures | 1,600,535 | - | - | - | 1,600,535 |
| | <u>\$ 1,753,132</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,753,132</u> |
| Unassigned | | | | | |
| | <u>\$ 1,771,423</u> | <u>\$ -</u> | <u>\$ (2,995,614)</u> | <u>\$ (245,186)</u> | <u>\$ (1,469,377)</u> |

14. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In 2002, the Town authorized borrowing \$ 2,400,000 to fund the expected costs of re-capping and monitoring of the landfill.

The \$ 1,050,000 reported as landfill closure and postclosure care liability at June 30, 2011 represents what it would cost to perform all closure and post-closure care remaining on the closed landfill site in 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. (See Note 16).

15. Restricted Net Assets

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

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

16. Commitments and Contingencies

Landfill - The Town of Easton has been in violation of an administrative consent order and subsequent agreements with the Massachusetts Department of Environmental Protection (DEP) that required the Easton Landfill to be capped by December 1999. The Town completed capping the landfill during fiscal year 2004.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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

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

17. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2011, the actuarial valuation date, approximately 427 retirees and 623 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 5% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of January 1, 2011.

| | |
|---|----------------------|
| Annual Required Contribution (ARC) | \$ 9,103,161 |
| Interest on net OPEB obligation | 555,008 |
| Adjustment to ARC | <u>(529,598)</u> |
| Annual OPEB cost | 9,128,571 |
| Contributions made | <u>(2,916,258)</u> |
| Increase in net OPEB obligation | 6,212,313 |
| Net OPEB obligation - beginning of year | <u>13,059,016</u> |
| Net OPEB obligation - end of year | <u>\$ 19,271,329</u> |

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

| <u>Fiscal year ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|--|----------------------------|
| 2011 | \$ 9,128,571 | 32% | \$ 19,271,329 |
| 2010 | \$ 9,314,475 | 28% | \$ 13,059,016 |
| 2009 | \$ 8,699,042 | 27% | \$ 6,349,210 |

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

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the date of the most recent actuarial valuation was as follows:

| | |
|---|-----------------------|
| Actuarial accrued liability (AAL) | \$ 104,908,231 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 104,908,231</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0%</u> |
| Covered payroll (active plan members) | <u>\$ 37,667,000</u> |
| UAAL as a percentage of covered payroll | <u>278.51%</u> |

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

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include tech-

niques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.25% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 28 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.25%.

18. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The Town contributes to the Bristol Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Bristol County Retirement System at 645 County Street, County Crossing, Taunton, Massachusetts 02780.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2011, 2010, and 2009 were \$ 2,628,249, \$ 2,528,509, and \$ 2,203,385, respectively, which were equal to its annual required contributions for each of these years. The payroll for employees covered by the System for the year ended June 30, 2011 was not available.

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

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

D. Teachers

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

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

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

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

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

The Town's current year covered payroll for teachers and administrators was not available.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 5,857,529 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Risk Management

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

20. Beginning Fund Balance Reclassification

With the implementation of GASB Statement 54, the Town's Stabilization funds are now reported in the general fund. Accordingly, the following reconciliation is provided:

| | Fund Equity 6/30/10 (as previously <u>reported</u>) | <u>Reclassification</u> | Fund Equity 6/30/10 (as restated) |
|----------------|---|-------------------------|---|
| General fund | \$ 3,729,506 | \$ 2,482,244 | \$ 6,211,750 |
| Nonmajor funds | <u>4,833,516</u> | <u>(2,482,244)</u> | <u>2,351,272</u> |
| Total | \$ <u>8,563,022</u> | \$ <u>-</u> | \$ <u>8,563,022</u> |

**TOWN OF EASTON, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2011
(Unaudited)
(Amounts Expressed in thousands)**

Other Post-Employment Benefits

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|---|
| 01/01/11 | \$ - | \$ 104,908 | \$ 104,908 | 0.00% | \$ 37,667 | 278.51% |
| 01/01/09 | \$ - | \$ 96,116 | \$ 96,116 | 0.00% | \$ 33,521 | 286.73% |

See Independent Auditors' Report.