

TOWN OF BOXFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Boxford, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Boxford, Massachusetts, as of and for the year ended June 30, 2010, 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 Boxford'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Boxford, as of June 30, 2010, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information on page 38, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

Additional Offices:

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

We have 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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
March 1, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Boxford, we offer readers this narrative overview and analysis of the financial activities of the Town of Boxford for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, insurance and benefits, interest, and intergovernmental expense.

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 two categories: governmental 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.

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.

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 of assets exceeded liabilities by \$ 48,409,659 (i.e., net assets), a change of \$ (1,455,314) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 7,276,169, a change of \$ 488,273 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,049,593, a change of \$ 407,001 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 11,632,458, a change of \$ (1,028,572) 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>2010</u>	<u>2009</u>
Current and other assets	\$ 8,533,578	\$ 8,077,435
Capital assets	<u>57,457,016</u>	<u>58,194,433</u>
Total assets	65,990,594	66,271,868
Long-term liabilities outstanding	15,343,138	14,150,660
Other liabilities	<u>2,237,797</u>	<u>2,256,235</u>
Total liabilities	17,580,935	16,406,895
Net assets:		
Invested in capital assets, net	46,572,429	46,402,357
Restricted	4,367,789	3,987,461
Unrestricted	<u>(2,530,559)</u>	<u>(524,845)</u>
Total net assets	<u>\$ 48,409,659</u>	<u>\$ 49,864,973</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,406,070	\$ 1,407,536
Operating grants and contributions	3,064,680	2,989,180
Capital grants and contributions	450,085	677,128
General revenues:		
Property taxes	21,820,197	21,539,691
Excises	1,280,845	1,308,148
Penalties and interest on taxes	84,705	67,380
Grants and contributions not restricted to specific programs	833,083	3,194,447
Investment income	157,883	165,918
Other	<u>9,541</u>	<u>50,036</u>
Total revenues	29,107,089	31,399,464

(continued)

(continued)

Expenses:

General government	1,707,004	1,824,836
Public safety	2,389,426	2,350,216
Education	20,175,977	19,449,883
Public works	2,536,046	2,540,484
Human services	259,539	254,209
Culture and recreation	477,929	511,341
Insurance and benefits	2,374,006	1,865,926
Interest on long-term debt	471,269	577,637
Intergovernmental	171,207	153,853
Total expenses	30,562,403	29,528,385
Change in net assets	(1,455,314)	1,871,079
Net assets - beginning of year	49,864,973	47,993,894
Net assets - end of year	<u>\$ 48,409,659</u>	<u>\$ 49,864,973</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 \$ 48,409,659, a change of \$ (1,455,314) from the prior year.

The largest portion of net assets \$ 46,572,429 reflects our investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 4,367,789 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is a deficit balance of \$ (2,530,559), which was primarily caused by unfunded OPEB costs.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (1,455,314). Key elements of this change are as follows:

General fund change in fund balance (explained in more detail in Section D, below)	\$ 148,456
Community Preservation fund change in fund balance (accrual basis)	270,504
Nonmajor funds change in fund balance (accrual basis)	402,132
Excess principal maturities, a budgeted expense, under depreciation, which is not budgeted	(590,514)
Capital acquisitions funded with operating funds	548,849
Change in OPEB liability	(2,184,417)
Other	<u>(50,324)</u>
Total	<u>\$ (1,455,314)</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 7,276,169, a change of \$ 488,273 in comparison to the prior year. Key elements of this change are as follows:

General fund change in fund balance (explained in more detail below)	\$ 148,456
Community Preservation Fund change in fund balance	263,504
Nonmajor funds change in fund balance	<u>76,313</u>
Total	<u>\$ 488,273</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,049,593, while total fund balance was \$ 2,674,361. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.8 percent of total general fund expenditures, while total fund balance represents 10.1 percent of that same amount.

The fund balance of the general fund changed by \$ 148,456 during the current fiscal year. Key factors in this change are as follows:

Revenues in excess of budget	\$ 241,473
Net appropriation surplus	434,008
Use of free cash and overlay surplus to fund various current year appropriations	(702,500)
Excess of prior year encumbered appropriations over current year encumbrances	(9,294)
Raise prior year snow/ice deficit	231,413
Other	(46,644)
Total	<u>\$ 148,456</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 75,000. This increase was made up of the following:

- \$75,000 appropriation from free cash to supplement the Public Works Department 2010 capital budget for a drainage project.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets at year end amounted to \$ 57,457,016 (net of accumulated depreciation), a change of \$ (737,417) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

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

- \$ 340,089 for various road improvement and culvert work.
- \$ 53,770 for various projects, including Lincoln Hall, Elm Street Library, and the recycling center.
- \$ 487,809 for various fire and public works vehicles, machinery and equipment.
- Current year depreciation expense of \$ (1,619,085).

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 11,632,458, 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 footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Boxford'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/Finance Director
Town of Boxford, Massachusetts
7A Spofford Road
Boxford, Massachusetts 01921

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 5,185,309
Investments	2,998,720
Receivables, net of allowance for uncollectibles:	
Taxes	171,366
Excises	46,554
Other	5,940
Due from other governments	20,220
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Taxes	51,580
Betterments	53,889
Land and construction in progress	20,152,253
Capital assets, net of accumulated depreciation	37,304,763
TOTAL ASSETS	65,990,594
LIABILITIES	
Current:	
Warrants payable	245,281
Accrued liabilities	160,388
Deferred revenues	59,829
Tax refunds payable	352,162
Other	321,766
Current portion of long-term liabilities:	
Bonds payable	1,023,512
Other liabilities	74,859
Noncurrent:	
Bonds payable, net of current portion	10,608,946
Other liabilities, net of current portion	1,514,558
Other post-employment benefits	3,219,634
TOTAL LIABILITIES	17,580,935
NET ASSETS	
Invested in capital assets, net of related debt	46,572,429
Restricted for:	
Community preservation funds	2,437,492
Grants and other statutory restrictions	1,914,315
Permanent funds:	
Nonexpendable	5,000
Expendable	10,982
Unrestricted	(2,530,559)
TOTAL NET ASSETS	\$ 48,409,659

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
	<u>Expenses</u>				
Governmental Activities:					
General government	\$ 1,707,004	\$ 142,564	\$ 43,736	\$ -	\$ (1,520,704)
Public safety	2,389,426	233,437	40,911	-	(2,115,078)
Education	20,175,977	734,427	2,937,624	131,379	(16,372,547)
Public works	2,536,046	234,225	561	318,706	(1,982,554)
Health and human services	259,539	58,119	17,304	-	(184,116)
Culture and recreation	477,929	3,298	24,222	-	(450,409)
Insurance and benefits	2,374,006	-	322	-	(2,373,684)
Interest expense	471,269	-	-	-	(471,269)
Intergovernmental	171,207	-	-	-	(171,207)
Total Governmental Activities	\$ <u>30,562,403</u>	\$ <u>1,406,070</u>	\$ <u>3,064,680</u>	\$ <u>450,085</u>	(25,641,568)
General Revenues:					
					21,820,197
					1,280,845
					84,705
					833,083
					157,883
					9,541
Total general revenues					<u>24,186,254</u>
Change in Net Assets					(1,455,314)
Net Assets:					
Beginning of year					<u>49,864,973</u>
End of year					\$ <u>48,409,659</u>

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 3,328,341	\$ 513,205	\$ 1,343,763	\$ 5,185,309
Investments	254,434	1,923,733	820,553	2,998,720
Receivables:				
Taxes	219,754	3,192	-	222,946
Excises	61,657	-	-	61,657
Due from other governments	20,220	-	-	20,220
TOTAL ASSETS	\$ 3,884,406	\$ 2,440,130	\$ 2,164,316	\$ 8,488,852
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 245,281	\$ -	\$ -	\$ 245,281
Accrued liabilities	58,369	-	-	58,369
Deferred revenues	233,050	2,055	-	235,105
Tax refunds payable	352,162	-	-	352,162
Other liabilities	321,183	583	-	321,766
TOTAL LIABILITIES	1,210,045	2,638	-	1,212,683
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	353,097	189,226	-	542,323
Expenditures	270,969	633,168	-	904,137
Perpetual (unexpendable) permanent funds	-	-	5,000	5,000
Unreserved:				
Designated for other purposes	702	-	-	702
Undesignated, reported in:				
General fund	2,049,593	-	-	2,049,593
Special revenue funds	-	1,615,098	1,914,315	3,529,413
Capital project funds	-	-	234,019	234,019
Permanent funds	-	-	10,982	10,982
TOTAL FUND BALANCES	2,674,361	2,437,492	2,164,316	7,276,169
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,884,406	\$ 2,440,130	\$ 2,164,316	\$ 8,488,852

See notes to financial statements.

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

JUNE 30, 2010

Total governmental fund balances	\$ 7,276,169
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	57,457,016
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	220,002
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(102,019)
• Long-term liabilities, including bonds payable, compensated absences, net OPEB obligation, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(16,441,509)</u>
Net assets of governmental activities	<u><u>\$ 48,409,659</u></u>

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Community Preservation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$ 21,333,430	\$ 518,188	\$ -	\$ 21,851,618
Excises	1,273,731	-	-	1,273,731
Interes, penalties, and other taxes	83,726	979	-	84,705
Charges for services	306,071	-	805,810	1,111,881
Intergovernmental	3,271,219	236,351	764,138	4,271,708
Licenses and permits	222,435	-	-	222,435
Fines and forfeitures	56,391	-	-	56,391
Investment income	49,844	86,926	22,917	159,687
Other	-	-	99,240	99,240
Total Revenues	<u>26,596,847</u>	<u>842,444</u>	<u>1,692,105</u>	<u>29,131,396</u>
Expenditures:				
Current:				
General government	1,262,095	71,780	223,038	1,556,913
Public safety	2,440,277	-	54,274	2,494,551
Education	17,515,007	-	938,382	18,453,389
Public works	1,771,500	-	324,176	2,095,676
Health and human services	251,128	-	50,068	301,196
Culture and recreation	375,292	24,429	21,324	421,045
Insurance and benefits	1,623,560	-	10,959	1,634,519
Debt service	1,031,896	482,731	-	1,514,627
Intergovernmental	171,207	-	-	171,207
Total Expenditures	<u>26,441,962</u>	<u>578,940</u>	<u>1,622,221</u>	<u>28,643,123</u>
Excess (deficiency) of revenues over expenditures	154,885	263,504	69,884	488,273
Other Financing Sources (Uses):				
Transfers in	13,571	-	20,000	33,571
Transfers out	<u>(20,000)</u>	<u>-</u>	<u>(13,571)</u>	<u>(33,571)</u>
Total Other Financing Sources (Uses)	<u>(6,429)</u>	<u>-</u>	<u>6,429</u>	<u>-</u>
Change in fund balance	148,456	263,504	76,313	488,273
Fund Equity, at Beginning of Year	<u>2,525,905</u>	<u>2,173,988</u>	<u>2,088,003</u>	<u>6,787,896</u>
Fund Equity, at End of Year	<u>\$ 2,674,361</u>	<u>\$ 2,437,492</u>	<u>\$ 2,164,316</u>	<u>\$ 7,276,169</u>

See notes to financial statements.

TOWN OF BOXFORD, 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, 2010

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 488,273

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

Capital outlay purchases 881,668

Depreciation (1,619,085)

- 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 (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue.

(24,306)

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

Repayments of debt 1,028,571

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

14,787

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

(2,225,222)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (1,455,314)

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues and other sources:				
Taxes	\$ 21,380,074	\$ 21,380,074	\$ 21,380,074	\$ -
Excise	1,084,900	1,084,900	1,273,731	188,831
Interest, penalties, and other taxes	60,000	60,000	83,726	23,726
Charges for services	270,600	270,600	306,071	35,471
Intergovernmental	2,333,765	2,333,765	2,363,540	29,775
Licenses and permits	225,000	225,000	222,435	(2,565)
Fines and forfeits	50,000	50,000	56,391	6,391
Investment income	77,149	77,149	49,844	(27,305)
Miscellaneous	12,851	12,851	-	(12,851)
Transfers in	13,571	13,571	13,571	-
Use of fund balance	604,787	679,787	679,787	-
Other sources	22,713	22,713	22,713	-
Total Revenues and Other Sources	26,135,410	26,210,410	26,451,883	241,473
Expenditures and other uses:				
General government	1,533,367	1,398,910	1,273,821	125,089
Public safety	2,447,706	2,515,758	2,448,198	67,560
Education	16,797,350	16,797,350	16,564,421	232,929
Public works	1,536,239	1,677,644	1,802,202	(124,558)
Health and human services	239,477	239,477	232,920	6,557
Culture and recreation	387,638	387,638	376,589	11,049
Insurance and benefits	1,720,095	1,720,095	1,623,735	96,360
Debt service	1,031,896	1,031,896	1,031,896	-
Intergovernmental	190,229	190,229	171,207	19,022
Snow/ice deficit raised	231,413	231,413	231,413	-
Transfers out	20,000	20,000	20,000	-
Total Expenditures	26,135,410	26,210,410	25,776,402	434,008
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 675,481	\$ 675,481

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ -	\$ 116,225
Investments	<u>41,938</u>	<u>83,059</u>
Total Assets	41,938	199,284
<u>LIABILITIES AND NET ASSETS</u>		
Performance bond deposits	-	169,453
Other liabilities	<u>-</u>	<u>29,831</u>
Total Liabilities	<u>-</u>	<u>199,284</u>
<u>NET ASSETS</u>		
Restricted for:		
Endowment	12,500	-
Unrestricted	<u>29,438</u>	<u>-</u>
Net assets	\$ <u><u>41,938</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Funds</u>
Additions:	
Interest earnings	521
Contributions	<u>13,559</u>
Total contributions	14,080
 Deductions:	
Education	<u>14,400</u>
Total deductions	<u>14,400</u>
 Net increase (decrease)	 (320)
 Net assets:	
Beginning of year	<u>42,258</u>
End of year	<u><u>\$ 41,938</u></u>

See notes to financial statements.

TOWN OF BOXFORD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Boxford (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 2010, 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.

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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental 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 are the 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* is used to account for revenues and expenditures related to the levy of a three percent property tax surcharge that is authorized by the Community Preservation Act. This fund was established by the Town for the purpose of acquiring

open land for conservation, developing affordable housing, and preserving historical property.

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

D. Cash and Short-Term Investments

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

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.

Investments for the Community Preservation Fund and the Trust Funds consist of bank certificates of deposit, corporate bonds, marketable securities, and U.S. Treasury/Agency securities. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" limits 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 or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 421,301.

G. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost that exceeds \$ 5,000 to \$ 100,000, depending on the asset's category, 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.

Capital assets of the primary government are 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	6
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund 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)	\$ 26,596,847	\$ 26,441,962
Other financing sources/uses (GAAP basis)	<u>13,571</u>	<u>20,000</u>
Subtotal (GAAP Basis)	26,610,418	26,461,962
Adjust tax revenue to accrual basis	46,644	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(362,391)
Add end of year appropriation carryforwards to expenditures	-	353,097
To reverse the effect of non-budgeted State contributions for teachers retirement	(907,679)	(907,679)
To record raising of prior year's snow and ice deficit	-	231,413
Recognize use of free cash and overlay surplus as a funding source	<u>702,500</u>	<u>-</u>
Budgetary basis	<u>\$ 26,451,883</u>	<u>\$ 25,776,402</u>

D. Deficit Fund Equity

The following funds had deficit balances as of June 30, 2010:

Communications Equipment Grant	\$ (19,075)
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The deficit in this fund will be eliminated through future intergovernmental revenues.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's policy is to minimize custodial credit risk by limiting unsecured bank deposits to no more than 5% of an institution's assets and no more than 10% of the Town's total cash.

As of June 30, 2010, none of the Town's bank balance of \$ 5,315,892, was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. Investments are governed by Massachusetts General Laws, Chapter 44, Sections 54 and 55, and by the Town's investment policy, which is in full compliance with these laws. The Town's investment policy allows unlimited investment in United States Treasury and Agency obligations, as these investments carry an Aaa rating. All other investments must be in investment grade securities, a high concentration of which must be rated A or above. As of June 30, 2010, all of the Town's investments are in compliance with these policies.

Presented below is the actual Moody's rating as of June 30, 2010 for each investment type of the Town (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>				
				<u>Aaa</u>	<u>Aa2</u>	<u>A1</u>	<u>A2</u>	<u>Baa1</u>
Certificates of deposits	\$ 957	N/A	\$ 957	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate bonds	485	N/A	-	-	132	82	61	210
Corporate equities	208	N/A	208	-	-	-	-	-
Federal agency securities	1,382	N/A	-	1,382	-	-	-	-
Mutual funds	92	N/A	92	-	-	-	-	-
Total investments	<u>\$ 3,124</u>		<u>\$ 1,257</u>	<u>\$ 1,382</u>	<u>\$ 132</u>	<u>\$ 82</u>	<u>\$ 61</u>	<u>\$ 210</u>

B. Custodial Credit Risk

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

will not be able to recover the value of its investments. The Town reviews its investment firms' financial statements and the background of its sales representatives, which limits exposure to only those institutions with proven financial strength, capital adequacy, and an overall affirmative reputation in the municipal industry. The Town's investment policy also requires that all securities be held in the Town's name and federal tax identification number by a third party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. In addition, as of June 30, 2010, all of the Town's investments were held in financial institutions that are members of the Securities Investor Protection Corporation (SIPC).

As of June 30, 2010, none of the Town's investments were subject to custodial credit risk.

C. Concentration of Credit Risk

The Town's investment policy includes a diversification concept that prohibits the over-concentration of investments in a specific instrument-type and issuer by limiting investments (other than U.S. Treasury and U.S. Agency obligations or investments fully collateralized by U.S. Treasuries or U.S. Agencies) to no more than 5% of an institution's assets and no more than 10% of the Town's cash.

As of June 30, 2010, the Town had no investments in any one issuer that exceeded these limits.

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's investment policy includes a diversification concept that prohibits the over-concentration of investment maturities; however, the Town places no limit on the length of maturity from date of purchase for Community Preservation, Stabilization, and Trust funds that are invested in U.S. Treasuries or U.S. Agency obligations that may be sold prior to maturity. As of June 30, 2010, the Town's investments are in compliance with these policies.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
Corporate bonds	\$ 485	\$ -	\$ 485	\$ -	\$ -
Federal agency securities	<u>1,382</u>	<u>-</u>	<u>802</u>	<u>580</u>	<u>-</u>
Total	<u>\$ 1,867</u>	<u>\$ -</u>	<u>\$ 1,287</u>	<u>\$ 580</u>	<u>\$ -</u>

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 Assessors 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, 2010 consist of the following:

Real estate	\$ 163,304
Personal property	4,869
Tax title	51,581
Community preservation	<u>3,192</u>
Total	<u>\$ 222,946</u>

6. Allowance for Doubtful Accounts

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

Excises	\$ 15,103
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7. Intergovernmental Receivables

This balance represents reimbursement requested from Federal and/or State agencies for expenditures incurred in fiscal 2010.

8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 19,674	\$ -	\$ -	\$ 19,674
Machinery, equipment, and furnishings	3,881	488	-	4,369
Infrastructure	<u>30,933</u>	<u>459</u>	<u>-</u>	<u>31,392</u>
Total capital assets, being depreciated	54,488	947	-	55,435
Less accumulated depreciation for:				
Buildings and improvements	(5,895)	(498)	-	(6,393)
Machinery, equipment, and furnishings	(2,290)	(301)	-	(2,591)
Infrastructure	<u>(8,326)</u>	<u>(820)</u>	<u>-</u>	<u>(9,146)</u>
Total accumulated depreciation	<u>(16,511)</u>	<u>(1,619)</u>	<u>-</u>	<u>(18,130)</u>
Total capital assets, being depreciated, net	37,977	(672)	-	37,305
Capital assets, not being depreciated:				
Land	19,231	-	-	19,231
Construction in progress	<u>986</u>	<u>58</u>	<u>(123)</u>	<u>921</u>
Total capital assets not being depreciated, net	<u>20,217</u>	<u>58</u>	<u>(123)</u>	<u>20,152</u>
Governmental activities capital assets, net	<u>\$ 58,194</u>	<u>\$ (614)</u>	<u>\$ (123)</u>	<u>\$ 57,457</u>

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

Governmental Activities:	
General government	\$ 164
Public safety	212
Education	271
Public works	907
Human services	9
Culture and recreation	<u>56</u>
Total depreciation expense - governmental activities	<u>\$ 1,619</u>

9. Warrants Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law.

10. Accrued Liabilities

Governmental activities: This balance represents the amount accrued in the current period for interest on the Town's outstanding general obligation bonds, as well as accrued employee payroll.

Governmental funds: This balance represents accrued employee payroll.

11. Deferred Revenue

Government-wide financial statements report *deferred revenues* in connection with the Town's unapportioned betterment receivables.

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, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Tax Refunds Payable

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

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

	Amount of	Serial	Net	Amount
	Original	Maturities	Interest	Outstanding
	Issue	Through	Rate	as of
				6/30/10
<u>Governmental Activities:</u>				
<u>Bonds payable - Inside the Debt Limit</u>				
Lockwood/Lord/Haynes land - refunding	\$ 943,000	06/15/17	2.21%	\$ 813,000
Fire truck	255,000	08/15/17	3.67%	135,000
Police station	3,230,000	04/15/21	4.55%	1,760,000
Town Hall construction	4,270,000	08/15/22	4.04%	2,885,000
Sawyer/Richardson land	3,000,000	08/15/22	4.05%	2,040,000
Spofford Pond Road drainage	300,000	08/15/22	4.04%	165,000
Haynes land	1,900,000	06/15/27	3.94%	1,700,000
Anvil Farm land	850,000	06/15/26	3.90%	750,000
Lincoln Hall building renovations	675,000	06/15/27	3.93%	595,000
<u>Bonds payable - Outside the Debt Limit</u>				
School construction - refunding	310,500	06/15/16	2.12%	272,500
Landfill closure - refunding	456,500	06/15/17	2.24%	389,500
Title V MWPAT - Loan 1	200,000	08/01/18	0.00%	97,828
Title V MWPAT - Loan 2	48,524	02/01/21	0.00%	29,630
Total Governmental Activities:	<u>\$ 16,438,524</u>			<u>\$ 11,632,458</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

Governmental Activities			
<u>Future Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	1,023,512	445,602	1,469,114
2012	1,018,565	412,610	1,431,175
2013	1,013,566	377,904	1,391,470
2014	998,565	341,849	1,340,414
2015	983,562	306,011	1,289,573
2016-2020	4,106,939	992,393	5,099,332
2021-2025	2,172,749	255,343	2,428,092
2026-2027	315,000	18,563	333,563
Total Governmental Activities	<u>\$ 11,632,458</u>	<u>\$ 3,150,275</u>	<u>\$ 14,782,733</u>

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010:

General fund	\$ 7,297,458
Community preservation fund	<u>4,335,000</u>
Total	<u>\$ 11,632,458</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/09	Additions	Reductions	Total Balance 6/30/10	Less Current Portion	Equals Long-Term Portion 6/30/10
<u>Governmental Activities</u>						
Bonds payable	\$ 12,661	\$ -	\$ (1,029)	\$ 11,632	\$ (1,023)	\$ 10,609
Other:						
Compensated absence	288	78	-	366	(36)	330
Landfill postclosure	1,261	-	(37)	1,224	(39)	1,185
OPEB ⁽¹⁾	1,035	2,838	(653)	3,220	-	3,220
	<u>2,584</u>	<u>2,916</u>	<u>(690)</u>	<u>4,810</u>	<u>(75)</u>	<u>4,735</u>
Subtotal - Other						
Totals	\$ <u>15,245</u>	\$ <u>2,916</u>	\$ <u>(1,719)</u>	\$ <u>16,442</u>	\$ <u>(1,098)</u>	\$ <u>15,344</u>

⁽¹⁾ OPEB is discussed further in Note #20 and additional information is reported in required supplementary information.

14. Landfill Closure and Postclosure Care Costs

The Town's landfill was closed and capped in the Spring of 2001. State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site of its capped landfill for thirty years after closure. These *postclosure care* costs are reported as a long-term liability in the government-wide financial statements, and a portion of the liability is expensed each year. The amount of the postclosure care liability and the portion of costs expensed each year are based on estimates provided by management. In 1999, the Town issued \$ 1,050,000 in general obligation bonds to fund estimated closure and monitoring costs.

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. Reserves and Designations of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside

for a specific future use. Fund “designations”, which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances and Continuing Appropriations - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Designated for Other Purposes - Represents amounts set aside to pay future debt service expenditures.

17. Subsequent Events

Debt

Subsequent to June 30, 2010, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 510,000	1.50%	07/30/10	07/29/11

18. Commitments and Contingencies

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government.

Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

19. Pension Plan

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

A. Plan Description

The Town contributes to the Essex Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by the Essex Regional 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 Essex Regional Retirement Board at 491 Maple Street, Building 200, Suite 202, Danvers, Massachusetts 01923-4025.

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, 2010, 2009, and 2008 were \$ 673,891, \$ 570,057, and \$ 622,973, 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, 2010 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), a contributory retirement system governed by Chapter 32 of the Massachusetts General Laws. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 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 MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. 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 2010, the Commonwealth of Massachusetts contributed \$ 907,679 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use them. 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 in Note 19, the Town provides post-employment medical and prescription drug benefits

for eligible retirees. The benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2009, the actuarial valuation date, approximately 46 retirees and 198 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical and prescription drug benefits to all eligible retirees through a variety of plans from Blue Cross Blue Shield of Massachusetts. (Dental and life insurance coverage are also offered, but they are 100% retiree paid.) All active employees who retire from the Town and meet the eligibility criteria can receive these benefits.

C. Funding Policy

Non-Medicare retirees contribute 21% of the individual and 34% of the family cost of their chosen health plan. Retirees enrolled in the Medicare Supplement Plans contribute 50% for the *BCBS Medex 3* plan and 34% for the *BCBS Managed Blue for Seniors* plan. 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 2010 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, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2009.

Annual Required Contribution (ARC)	\$ 2,874,189
Interest on net OPEB obligation	82,818
Adjustment to ARC	<u>(119,473)</u>
Annual OPEB cost	2,837,534
Expected employer contributions	<u>(653,117)</u>
Increase in net OPEB obligation	2,184,417
Net OPEB obligation - beginning of year	<u>1,035,217</u>
Net OPEB obligation - end of year	<u><u>\$ 3,219,634</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2010 fiscal year and the two preceding years 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>
2008	N/A	N/A	N/A
2009	\$ 1,382,868	25.14%	\$ 1,035,217
2010	\$ 2,837,534	23.02%	\$ 3,219,634

The Town's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other liabilities, net of current portion" line item in the Statement of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 15,838,649
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 15,838,649</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	<u>\$ N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

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

F. Actuarial Methods and Assumptions

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

pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial value of assets is equal to the market value of the plan's assets. The actuarial assumptions included a 4.0% investment rate of return (pay-as-you-go scenario) and an initial annual medical/drug cost trend rate of 10.0% graded down to 5.0% over five years. The UAAL is amortized over a period of thirty years with payments increasing at 4.5% per year.

21. 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.

**SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2010

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]	
07/01/07	\$ -	\$ 16,188	\$ 16,188	0.00%	\$ N/A	N/A	
07/01/09	\$ -	\$ 15,839	\$ 15,839	0.00%	\$ N/A	N/A	

See Independent Auditors' Report.