

TOWN OF AMESBURY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule of Funding Progress	51
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SUPPLEMENTARY INFORMATION:

Schedule of Revenues, and Expenditures and Other Uses Uses - Budget and Actual - Sewer Enterprise Fund	52
Schedule of Revenue and Expenditures and Other Uses - Budget and Actual - Water Enterprise Fund	53



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Municipal Council
Town of Amesbury, 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 Amesbury, Massachusetts, as of and for the year ended June 30, 2011, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 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 Amesbury'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 Amesbury as of June 30, 2011, (except the Amesbury Contributory Retirement System which is as of December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

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

The Management's Discussion and Analysis, appearing on the following pages, and the supplementary information, appearing on page 51, 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 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 addition, the schedules appearing on pages 52 and 53 is presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Amesbury, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 31, 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 considered in assessing the results of our audit.

Melanson Heath + Company P.C.
Andover, Massachusetts
May 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Amesbury, we offer readers this narrative overview and analysis of the financial activities of the Town of Amesbury for the fiscal year ended June 30, 2011. Unless otherwise noted, all amounts are expressed 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. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary 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 \$ 69,463 (i.e., net assets), a change of \$ 212 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 7,791, a change of \$ 1,498 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,354, a change of \$ 770 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 34,180, change of \$ (3,083) in comparison to the prior year. Bond anticipation notes at year-end totaled \$ 10,311, a change of \$ 5,910.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 18,205	\$ 19,099	\$ 2,297	\$ 5,185	\$ 20,502	\$ 24,284
Capital assets	<u>63,163</u>	<u>65,072</u>	<u>43,816</u>	<u>33,719</u>	<u>106,979</u>	<u>98,791</u>
Total assets	81,368	84,171	46,113	38,904	127,481	123,075
Other liabilities	3,000	4,692	10,952	5,745	13,952	10,437
Long-term liabilities outstanding	<u>24,454</u>	<u>22,427</u>	<u>19,612</u>	<u>20,960</u>	<u>44,066</u>	<u>43,387</u>
Total liabilities	27,454	27,119	30,564	26,705	58,018	53,824
Net assets:						
Invested in capital assets, net	48,026	48,029	14,883	10,566	62,909	58,595
Restricted	3,863	3,128	-	-	3,863	3,128
Unrestricted	<u>2,025</u>	<u>5,895</u>	<u>666</u>	<u>1,633</u>	<u>2,691</u>	<u>7,528</u>
Total net assets	<u>\$ 53,914</u>	<u>\$ 57,052</u>	<u>\$ 15,549</u>	<u>\$ 12,199</u>	<u>\$ 69,463</u>	<u>\$ 69,251</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,415	\$ 2,390	\$ 5,488	\$ 5,063	\$ 7,903	\$ 7,453
Operating grants and contributions	18,378	17,937	-	-	18,378	17,937
Capital grants and contributions	501	784	2,962	507	3,463	1,291
General revenues:						
Property taxes	34,150	33,656	-	-	34,150	33,656
Excises	1,638	1,597	-	-	1,638	1,597
Penalties, interest and other taxes	249	150	-	-	249	150
Grants and contributions not restricted to specific programs	1,776	147	-	-	1,776	147
Investment income	71	136	-	-	71	136
Miscellaneous	45	88	-	-	45	88
Total revenues	<u>59,223</u>	<u>56,885</u>	<u>8,450</u>	<u>5,570</u>	<u>67,673</u>	<u>62,455</u>
Expenses:						
General government	3,094	3,861	-	-	3,094	3,861
Public safety	7,042	7,448	-	-	7,042	7,448
Education	35,085	34,765	-	-	35,085	34,765
Public works	3,138	2,847	-	-	3,138	2,847
Health and human services	929	862	-	-	929	862
Culture and recreation	913	842	-	-	913	842
Employee benefits	8,332	7,345	-	-	8,332	7,345
Intergovernmental	3,122	3,354	-	-	3,122	3,354
Interest on long-term debt	706	790	-	-	706	790
Sewer services	-	-	2,486	2,444	2,486	2,444
Water services	-	-	2,614	2,367	2,614	2,367
Total expenses	<u>62,361</u>	<u>62,114</u>	<u>5,100</u>	<u>4,811</u>	<u>67,461</u>	<u>66,925</u>
Change in net assets	(3,138)	(5,229)	3,350	759	212	(4,470)
Net assets - beginning of year	<u>57,052</u>	<u>62,281</u>	<u>12,199</u>	<u>11,440</u>	<u>69,251</u>	<u>73,721</u>
Net assets - end of year	<u>\$ 53,914</u>	<u>\$ 57,052</u>	<u>\$ 15,549</u>	<u>\$ 12,199</u>	<u>\$ 69,463</u>	<u>\$ 69,251</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 \$ 69,463, a change of \$ 212 from the prior year. The largest portion of net assets \$ 62,909 reflects our investment in capital assets

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

An additional portion of net assets \$ 3,863 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 2,691 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (3,137). Key elements of this change are as follows:

General fund revenues and transfers in in excess of expenditures	\$ 1,202
Change in OPEB liability	(3,687)
Depreciation in excess of principal debt service	(575)
MSBA grants	(767)
Capital assets additions from current year revenues	400
Nonmajor funds revenues in excess of expenditures and transfers out	296
Other	<u>(6)</u>
Total	<u>\$ (3,137)</u>

Business-type activities. Business-type activities for the year resulted in an increase in net assets of \$ 3,350, primarily from grant (ARRA) revenue.

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 an increase of \$ 1,498 for a combined ending fund balance of \$ 7,791. Key elements of this change are as follows:

General fund revenues and transfers in over expenditures	\$ 1,202
Special revenue fund revenues over expenditures and transfers out	543
Capital project fund expenditures in excess of revenues	(246)
Trust fund expenditures and transfers out in excess of revenues	<u>(1)</u>
Total	<u>\$ 1,498</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 the 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 \$ 2,354, while total fund balance was \$ 4,067. 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	\$ 2,354	\$ 1,584	\$ 770	4.5%
Total fund balance ¹	4,067	2,865	1,202	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 \$ 1,202 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and overlay surplus as a funding source	\$ (335)
Revenues in excess of budget	158
Expenditures less than budget	555
Expenditures of prior year encumbrances	(146)
Change in stabilization/capital reserve	33
Other	<u>937</u>
Total	<u>\$ 1,202</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 stabilization	\$ 756	\$ 735	\$ 21
Smart growth stabilization	<u>410</u>	<u>398</u>	<u>12</u>
Total	<u>\$ 1,166</u>	<u>\$ 1,133</u>	<u>\$ 33</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 \$ 666, a change of \$ (967) in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 345. Major reasons for these amendments include:

- \$ 10 appropriated for youth services, funded by a transfer from special revenue funds
- \$ 335 appropriated to fund snow and ice removal, funded by free cash

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 106,979 (net of accumulated depreciation), a net increase of \$ 8,188 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

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

Various vehicles	\$ 241
Public safety buildings and renovations	\$ 233
Water treatment and infrastructure upgrades	\$ 11,095

Change in credit rating. The Town of Amesbury continues to maintain the Standard & Poor credit rating of A.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 34,180 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.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's fiscal year 2012 general fund budget increased by 3.5% to \$ 47,000.

In December 2011, water and sewer rates were increased by 7.5% and 8.3%, respectively.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Amesbury'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:

Chief Financial Officer
Town of Amesbury
62 Friend Street
Amesbury, MA 01913

TOWN OF AMESBURY, 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	\$ 8,543,347	\$ 321,694	\$ 8,865,041
Investments	1,811,006	-	1,811,006
Receivables, net of allowance for uncollectibles:			
Property taxes	990,160	-	990,160
Excises	232,618	-	232,618
User fees	-	1,605,354	1,605,354
Departmental and other	413,362	-	413,362
Intergovernmental	898,183	398,535	1,296,718
Interfund activity	28,707	(28,707)	-
Other assets	140,133		140,133
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	481,965	-	481,965
Intergovernmental	4,600,594	-	4,600,594
Deferred assets	64,699	-	64,699
Capital Assets:			
Land and construction in progress	2,078,212	18,568,696	20,646,908
Other capital assets, net of accumulated depreciation	<u>61,084,793</u>	<u>25,247,432</u>	<u>86,332,225</u>
TOTAL ASSETS	81,367,779	46,113,004	127,480,783
LIABILITIES			
Current:			
Accounts payable	-	721,288	721,288
Accrued liabilities	2,150,100	344,323	2,494,423
Notes payable	850,000	9,461,481	10,311,481
Retainage payable	-	424,173	424,173
Current portion of long-term liabilities:			
Bonds payable	1,604,628	1,500,524	3,105,152
Other liabilities	30,375	-	30,375
Noncurrent:			
Bonds payable, net of current portion	13,104,420	17,970,821	31,075,241
Net OPEB obligation	9,137,325	-	9,137,325
Other liabilities, net of current portion	<u>577,135</u>	<u>140,748</u>	<u>717,883</u>
TOTAL LIABILITIES	27,453,983	30,563,358	58,017,341
NET ASSETS			
Invested in capital assets, net of related debt	48,025,948	14,883,302	62,909,250
Restricted for:			
Grants and other statutory restrictions	3,112,484	-	3,112,484
Permanent funds:			
Nonexpendable	600,054	-	600,054
Expendable	150,588	-	150,588
Unrestricted	<u>2,024,722</u>	<u>666,344</u>	<u>2,691,066</u>
TOTAL NET ASSETS	\$ <u>53,913,796</u>	\$ <u>15,549,646</u>	\$ <u>69,463,442</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 4,689,469	\$ 3,853,878	\$ 8,543,347
Investments	1,165,980	645,026	1,811,006
Receivables:			
Property taxes	1,651,990	-	1,651,990
Excises	423,807	-	423,807
Departmental and other	-	413,362	413,362
Intergovernmental	-	131,418	131,418
Due from other funds	28,707	-	28,707
Other assets	<u>140,133</u>	<u>-</u>	<u>140,133</u>
TOTAL ASSETS	<u>\$ 8,100,086</u>	<u>\$ 5,043,684</u>	<u>\$ 13,143,770</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued liabilities	\$ 1,950,660	\$ -	\$ 1,950,660
Deferred revenues	2,075,797	413,362	2,489,159
Notes payable	-	850,000	850,000
Other liabilities	<u>6,678</u>	<u>56,427</u>	<u>63,105</u>
TOTAL LIABILITIES	4,033,135	1,319,789	5,352,924
Fund Balances:			
Nonspendable	-	600,054	600,054
Restricted	-	3,579,397	3,579,397
Committed	1,165,980	39,991	1,205,971
Assigned	547,166	-	547,166
Unassigned	<u>2,353,805</u>	<u>(495,547)</u>	<u>1,858,258</u>
TOTAL FUND BALANCES	<u>4,066,951</u>	<u>3,723,895</u>	<u>7,790,846</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,100,086</u>	<u>\$ 5,043,684</u>	<u>\$ 13,143,770</u>

See notes to financial statements.

TOWN OF AMESBURY, 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	\$ 7,790,846
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	63,163,005
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	2,182,804
<ul style="list-style-type: none">• MSBA reimbursements for contract assistance and progress payment projects, are not receivable in the current period and, therefore, are not reported in the governmental funds.	5,367,359
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(136,335)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(24,453,883)</u>
Net assets of governmental activities	<u>\$ 53,913,796</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 34,001,996	\$ -	\$ 34,001,996
Excise taxes	1,641,421	-	1,641,421
Penalties, interest and other taxes	248,863	-	248,863
Charges for services	395,731	1,555,451	1,951,182
Intergovernmental	15,489,839	6,007,051	21,496,890
Licenses and permits	356,662	-	356,662
Fines and forfeitures	106,883	-	106,883
Investment income	50,241	20,395	70,636
Contributions	-	7,167	7,167
Miscellaneous	26,285	18,567	44,852
Total Revenues	<u>52,317,921</u>	<u>7,608,631</u>	<u>59,926,552</u>
Expenditures:			
Current:			
General government	1,507,124	707,291	2,214,415
Public safety	6,610,231	606,620	7,216,851
Education	29,271,975	4,870,597	34,142,572
Public works	2,792,139	227,707	3,019,846
Health and human services	853,207	73,447	926,654
Culture and recreation	639,871	57,600	697,471
Employee benefits	4,645,157	-	4,645,157
Debt service	2,443,350	-	2,443,350
Intergovernmental	3,122,141	-	3,122,141
Total Expenditures	<u>51,885,195</u>	<u>6,543,262</u>	<u>58,428,457</u>
Excess (deficiency) of revenues over expenditures	432,726	1,065,369	1,498,095
Other Financing Sources (Uses):			
Transfers in	769,276	-	769,276
Transfers out	-	(769,276)	(769,276)
Total Other Financing Sources (Uses)	<u>769,276</u>	<u>(769,276)</u>	<u>-</u>
Change in fund balance	1,202,002	296,093	1,498,095
Fund Balance, at Beginning of Year	<u>2,864,949</u>	<u>3,427,802</u>	<u>6,292,751</u>
Fund Balance, at End of Year	<u>\$ 4,066,951</u>	<u>\$ 3,723,895</u>	<u>\$ 7,790,846</u>

See notes to financial statements.

TOWN OF AMESBURY, 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	\$ 1,498,095																		
<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 border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net</td> <td style="text-align: right;">399,783</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(2,308,954)</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 border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">144,987</td> </tr> </table> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance and progress payments, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(848,130)</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 border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt</td> <td style="text-align: right;">1,734,010</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 border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">12,381</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 border="0" style="margin-left: 40px;"> <tr> <td>Compensated Absences</td> <td style="text-align: right;">(73,801)</td> </tr> <tr> <td>Other Post-Employment Benefits</td> <td style="text-align: right;">(3,687,007)</td> </tr> <tr> <td>Deferred Asset</td> <td style="text-align: right;"><u>(9,243)</u></td> </tr> </table> 		Capital outlay purchases, net	399,783	Depreciation	(2,308,954)		144,987		(848,130)	Repayments of debt	1,734,010		12,381	Compensated Absences	(73,801)	Other Post-Employment Benefits	(3,687,007)	Deferred Asset	<u>(9,243)</u>
Capital outlay purchases, net	399,783																		
Depreciation	(2,308,954)																		
	144,987																		
	(848,130)																		
Repayments of debt	1,734,010																		
	12,381																		
Compensated Absences	(73,801)																		
Other Post-Employment Benefits	(3,687,007)																		
Deferred Asset	<u>(9,243)</u>																		
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(3,137,879)</u>																		

See notes to financial statements.

TOWN OF AMESBURY, 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:				
Taxes	\$ 33,776,361	\$ 33,776,361	\$ 33,776,361	\$ -
Motor vehicle excise	1,606,000	1,606,000	1,641,421	35,421
Penalties, interest and other taxes	146,000	146,000	248,863	102,863
Intergovernmental	11,161,088	11,161,088	11,195,954	34,866
Charges for services	185,776	185,776	166,818	(18,958)
Licenses and permits	261,000	261,000	356,662	95,662
Fines and forfeits	113,000	113,000	106,883	(6,117)
Investment income	30,000	30,000	21,263	(8,737)
Miscellaneous	194,000	194,000	117,189	(76,811)
Transfers in	759,276	769,276	769,276	-
Other uses	-	335,000	335,000	-
	<u>48,232,501</u>	<u>48,577,501</u>	<u>48,735,690</u>	<u>158,189</u>
Total Revenues and Other Sources				
	48,232,501	48,577,501	48,735,690	158,189
Expenditures and Other Uses:				
General government	2,115,332	2,080,332	1,921,291	159,041
Public safety	6,676,768	6,676,768	6,602,642	74,126
Education	24,933,496	24,933,496	24,933,496	-
Public works	2,610,911	2,945,911	2,862,515	83,396
Health and human services	815,148	860,148	851,205	8,943
Culture and recreation	642,036	642,036	640,275	1,761
Debt service	2,448,187	2,448,187	2,446,994	1,193
Intergovernmental	3,207,385	3,207,385	3,121,245	86,140
Employee benefits	4,783,238	4,783,238	4,643,157	140,081
	<u>48,232,501</u>	<u>48,577,501</u>	<u>48,022,820</u>	<u>554,681</u>
Total Expenditures and Other Uses				
	48,232,501	48,577,501	48,022,820	554,681
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>712,870</u>	\$ <u>712,870</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ -	\$ 321,694	\$ 321,694
User fees, net of allowance for uncollectibles	730,215	875,139	1,605,354
Intergovernmental receivable	-	398,535	398,535
Total current assets	730,215	1,595,368	2,325,583
Noncurrent:			
Capital assets not being depreciated	331,418	18,237,278	18,568,696
Capital assets being depreciated, net of accumulated depreciation	17,529,549	7,717,883	25,247,432
Total noncurrent assets	17,860,967	25,955,161	43,816,128
TOTAL ASSETS	18,591,182	27,550,529	46,141,711
<u>LIABILITIES</u>			
Current:			
Accounts payable	-	721,288	721,288
Accrued liabilities	207,411	136,912	344,323
Due to other funds	28,707	-	28,707
Notes payable	-	9,461,481	9,461,481
Retainage payable	-	424,173	424,173
Current portion of long-term liabilities:			
Bonds payable	968,821	531,703	1,500,524
Total current liabilities	1,204,939	11,275,557	12,480,496
Noncurrent:			
Bonds payable, net of current portion	11,363,370	6,607,451	17,970,821
Other liabilities, net of current portion	34,852	105,896	140,748
Total noncurrent liabilities	11,398,222	6,713,347	18,111,569
TOTAL LIABILITIES	12,603,161	17,988,904	30,592,065
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,528,776	9,354,526	14,883,302
Unrestricted	459,245	207,099	666,344
TOTAL NET ASSETS	\$ 5,988,021	\$ 9,561,625	\$ 15,549,646

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ <u>2,368,680</u>	\$ <u>3,119,377</u>	\$ <u>5,488,057</u>
Total Operating Revenues	2,368,680	3,119,377	5,488,057
Operating Expenses:			
Personnel	739,251	1,130,720	1,869,971
Non-personnel	763,968	803,728	1,567,696
Depreciation	<u>714,367</u>	<u>365,411</u>	<u>1,079,778</u>
Total Operating Expenses	<u>2,217,586</u>	<u>2,299,859</u>	<u>4,517,445</u>
Operating Income	151,094	819,518	970,612
Nonoperating Revenues (Expenses):			
Interest expense	<u>(268,743)</u>	<u>(313,874)</u>	<u>(582,617)</u>
Total Nonoperating Revenues (Expenses)	(268,743)	(313,874)	(582,617)
Capital Contributions	<u>-</u>	<u>2,962,198</u>	<u>2,962,198</u>
Change in Net Assets	(117,649)	3,467,842	3,350,193
Net Assets at Beginning of Year	<u>6,105,670</u>	<u>6,093,783</u>	<u>12,199,453</u>
Net Assets at End of Year	<u>\$ 5,988,021</u>	<u>\$ 9,561,625</u>	<u>\$ 15,549,646</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
Cash Flows From Operating Activities:			
Receipts from customers and users	\$ 2,692,344	\$ 2,975,426	\$ 5,667,770
Payments to vendors	(763,968)	(1,290,710)	(2,054,678)
Payments of employees' wages and related benefits	<u>(740,862)</u>	<u>(1,127,392)</u>	<u>(1,868,254)</u>
Net Cash Provided By Operating Activities	1,187,514	557,324	1,744,838
Cash Flows From Capital and Related Financing Activities:			
Proceeds from issuance of bonds and notes	-	10,637,308	10,637,308
Acquisition and construction of capital assets	-	(11,176,850)	(11,176,850)
Principal payments on bonds and notes	(955,261)	(2,794,000)	(3,749,261)
Capital Contributions	-	2,962,198	2,962,198
Interest expense	<u>(283,624)</u>	<u>(265,978)</u>	<u>(549,602)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(1,238,885)</u>	<u>(637,322)</u>	<u>(1,876,207)</u>
Net Change in Cash and Short-Term Investments	(51,371)	(79,998)	(131,369)
Cash and Short-Term Investments, Beginning of Year	<u>51,371</u>	<u>401,692</u>	<u>453,063</u>
Cash and Short-Term Investments, End of Year	<u>\$ -</u>	<u>\$ 321,694</u>	<u>\$ 321,694</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used For) Operating Activities:			
Operating income (Loss)	\$ 151,094	\$ 819,518	\$ 970,612
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	714,367	365,411	1,079,778
Changes in assets and liabilities:			
User fees	294,959	(143,952)	151,007
Accrued liabilities	(1,613)	(483,653)	(485,266)
Due to other funds	<u>28,707</u>	<u>-</u>	<u>28,707</u>
Net Cash Provided By Operating Activities	<u>\$ 1,187,514</u>	<u>\$ 557,324</u>	<u>\$ 1,744,838</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (As of <u>December 31, 2010</u>)	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 1,784,807	\$ 47,968	\$ 157,803
Investments	34,593,114	1,954,311	-
Accounts receivable	<u>9,570</u>	<u>-</u>	<u>-</u>
Total Assets	36,387,491	2,002,279	157,803
<u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>16,646</u>	<u>25,698</u>	<u>157,803</u>
Total Liabilities	<u>16,646</u>	<u>25,698</u>	<u>157,803</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>36,370,845</u></u>	\$ <u><u>1,976,581</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (For the Year Ended <u>December 31, 2010</u>)	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 2,837,492	\$ -
Other systems and Commonwealth of Massachusetts	150,345	-
Plan members	1,309,725	-
Other	<u>37,140</u>	<u>343,975</u>
Total contributions	4,334,702	343,975
Investment Income:		
Increase in fair value of investments	4,202,996	56,358
Less: management fees	<u>(149,608)</u>	<u>-</u>
Net investment income	4,053,388	56,358
Total additions	8,388,090	400,333
Deductions:		
Benefit payments to plan members and beneficiaries	4,156,894	-
Refunds to plan members	44,618	-
Administrative expenses	129,548	-
Other	<u>225,920</u>	<u>494,844</u>
Total deductions	4,556,980	494,844
Net increase	3,831,110	(94,511)
Net assets:		
Beginning of year	<u>32,539,735</u>	<u>2,071,092</u>
End of year	<u>\$ 36,370,845</u>	<u>\$ 1,976,581</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Amesbury (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 Mayor and Municipal Council. 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.

Component Units - Component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Amesbury Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 62 Friend Street, Amesbury, MA 01913.

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. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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:

- The *sewer fund* is used to report the Town's sewer enterprise fund operations.
- The *water fund* is used to report the Town's water enterprise fund operations.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

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 \$ 1,243,573.

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 \$ 5,000 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 of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	40
Vehicles	5
Office equipment	5 - 10
Computer equipment	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.

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 Town Council).
- 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

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Municipal Council, 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 Municipal Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Municipal Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 52,317,921	\$ 51,885,195
Other financing sources/uses (GAAP Basis)	<u>769,276</u>	<u>-</u>
Subtotal (GAAP Basis)	53,087,197	51,885,195
Adjust tax revenue to accrual basis	(225,635)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(146,143)
Add end-of-year appropriation carryforwards to expenditures	-	206,392
To record the use of free cash	335,000	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(4,428,339)	(4,428,339)
Other timing issues	<u>(32,533)</u>	<u>505,715</u>
Budgetary Basis	<u>\$ 48,735,690</u>	<u>\$ 48,022,820</u>

D. Deficit Fund Equity

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

Nonmajor governmental funds:	
Chapter 90 Highway	\$ (35,949)
Route 110 Force Account	(5,001)
Chapter 90 engineering	(910)
SPED - ARRA	(9,957)
Regional Health Agreement	(408)
School Lunch	(1,063)
Police off-duty	(16,087)
Remodeling Public Safety	(378,806)
DPW Facility/Relocation	(44,550)
Transportation Center Phase II	<u>(2,816)</u>
Total	\$ <u>(495,547)</u>

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

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's and Contributory Retirement System's (the System) 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."

Massachusetts General Law Chapter 32, Section 23, limits the Contributory Retirement System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2011 and December 31, 2010, \$ 5,850,771 of the Town's bank balance of \$ 9,676,325, and \$ 1,582,357 of the System's bank balance of \$ 1,832,357, respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year-end</u>
U.S. Treasury notes	\$ 105	Aaa
Federal agency securities	<u>3,660</u>	Aaa
Total investments	<u>\$ 3,765</u>	

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security. In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

Presented below is the actual rating as of year-end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>	<u>Average Credit Rating</u>
State Investment Pool*	\$ <u>34,593</u>	N/A	N/A
Total investments	<u>\$ 34,593</u>		

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension*

Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

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 and the System do 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 City's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

The System's investments of \$ 34,593,114 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment Pool.

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:

Federal National Mortgage Association	\$ 1,821,244
Federal Home Loan Mortgage Corp.	\$ 710,329
Federal Home Loan Bank	\$ 1,129,127

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments.

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 and System do 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):

<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>
Debt-related Securities:				
U.S. Treasury notes	\$ 105	\$ -	\$ 105	\$ -
Federal agency securities	<u>3,660</u>	<u>407</u>	<u>2,809</u>	<u>444</u>
Total	<u>\$ 3,765</u>	<u>\$ 407</u>	<u>\$ 2,914</u>	<u>\$ 444</u>

The System does not maintain investments that are sensitive to market interest rate fluctuations.

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 and System do 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	\$ 752	
2010	24	
2009	15	
2008 and prior	<u>26</u>	817
Personal Property		
2011	9	
2010	3	
2009 and prior	<u>8</u>	20
Tax Liens		554
Deferred Taxes		<u>261</u>
Total		<u>\$ 1,652</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	\$ 180	\$ -
Excises	191	-
Utilities	-	34

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2011 grant funds. Future receipt of MSBA contract assistance payments are as follows:

2012	\$ 766,765
2013	766,765
2014	766,765
2015	766,765
2016	766,765
2017-2018	<u>1,533,534</u>
	<u>\$ 5,367,359</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	\$ 86,223	\$ 7	\$ -	\$ 86,230
Machinery, equipment, and furnishings	3,556	160	-	3,716
Infrastructure	18,193	-	-	18,193
	<u>107,972</u>	<u>167</u>	<u>-</u>	<u>108,139</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(25,505)	(2,027)	-	(27,532)
Machinery, equipment, and furnishings	(2,638)	(213)	-	(2,851)
Infrastructure	(16,602)	(69)	-	(16,671)
	<u>(44,745)</u>	<u>(2,309)</u>	<u>-</u>	<u>(47,054)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	63,227	(2,142)	-	61,085
Capital assets, not being depreciated:				
Land	1,727	-	-	1,727
Construction in progress	118	233	-	351
	<u>1,845</u>	<u>233</u>	<u>-</u>	<u>2,078</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 65,072</u>	<u>\$ (1,909)</u>	<u>\$ -</u>	<u>\$ 63,163</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	\$ 42,222	\$ -	\$ -	\$ 42,222
Machinery, equipment, and furnishings	513	81	-	594
	<u>42,735</u>	<u>81</u>	<u>-</u>	<u>42,816</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(16,200)	(1,040)	-	(17,240)
Machinery, equipment, and furnishings	(289)	(40)	-	(329)
	<u>(16,489)</u>	<u>(1,080)</u>	<u>-</u>	<u>(17,569)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	26,246	(999)	-	25,247
Capital assets, not being depreciated:				
Land	1,054	-	-	1,054
Construction in process	6,419	11,096	-	17,515
	<u>7,473</u>	<u>11,096</u>	<u>-</u>	<u>18,569</u>
Total capital assets, not being depreciated				
Business-type activities capital assets, net	<u>\$ 33,719</u>	<u>\$ 10,097</u>	<u>\$ -</u>	<u>\$ 43,816</u>

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

Governmental Activities:	
General government	\$ 858
Public safety	176
Education	949
Public works	109
Culture and recreation	<u>217</u>
Total depreciation expense - governmental activities	<u>\$ 2,309</u>
Business-Type Activities:	
Sewer	\$ 714
Water	<u>366</u>
Total depreciation expense - business-type activities	<u>\$ 1,080</u>

9. Accounts Payable

Accounts payable represent 2011 expenditures paid after June 30, 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.

11. Notes Payable

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

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at 6/30/11</u>
Remodeling Public Safety	1.25%	12/17/10	12/16/11	\$ 600,000
Remodeling Public Safety	0.95%	06/28/11	12/16/11	250,000
Water Treatment Improvement	1.25%	12/17/10	12/16/11	2,000,000
Water Treatment	1.25%	12/17/10	12/16/11	400,000
Water Treatment	0.95%	06/28/11	12/16/11	293,000
Water Storage Tank	0.95%	06/28/11	12/16/11	191,000
MWPAT Water Treatment	.28%	01/01/10	bonding	<u>6,577,481</u>
Total				\$ <u><u>10,311,481</u></u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 600,000	\$ -	\$ (600,000)	\$ -
Bond anticipation	2,400,000	-	(2,400,000)	-
Bond anticipation	1,401,111	5,176,370	-	6,577,481
Bond anticipation	-	2,000,000	-	2,000,000
Bond anticipation	-	400,000	-	400,000
Bond anticipation	-	293,000	-	293,000
Bond anticipation	-	191,000	-	191,000
Bond anticipation	-	250,000	-	250,000
Bond anticipation	-	600,000	-	600,000
Total	\$ <u><u>4,401,111</u></u>	\$ <u><u>8,910,370</u></u>	\$ <u><u>(3,000,000)</u></u>	\$ <u><u>10,311,481</u></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>			
Municipal purpose	08/15/23	2.75 - 4.80	\$ 475,000
Municipal refunding 2005	09/15/18	3.00 - 5.00	7,624,048
School building addition	08/01/28	4.00 - 4.50	<u>6,610,000</u>
Total Governmental Activities:			\$ <u>14,709,048</u>

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of 6/30/11
<u>Business-Type Activities:</u>			
Sewer 95-11	02/01/17	6.00 - 5.625	\$ 456,094
Title 5	08/01/18	4.00 - 5.00	20,392
Sewer 98-93	08/01/20	4.50 - 5.25	140,000
Sewer 01-13	08/01/22	3.00 - 5.00	5,911,568
Sewer CW-02-17A	08/01/23	2.00 - 5.00	1,370,852
Sewer CW-02-17B	08/01/23	2.00 - 5.00	332,232
Sewer purposes	08/15/23	2.75 - 4.80	1,760,000
Water	08/15/23	2.75 - 4.80	1,470,000
Sewer refunding 2005	09/15/18	3.00 - 5.00	835,850
Water refunding 2005	09/15/18	3.00 - 5.00	1,665,102
Sewer CW-02-17C	09/15/27	0.00	800,203
Sewer treatment facility	08/01/28	4.00 - 4.50	705,000
Water treatment facility	08/01/28	4.00 - 4.50	390,000
Water treatment facility	07/31/28	4.50	35,000
Water treatment - MWPAT	07/15/30	2.00	<u>3,579,052</u>
Total Business-Type Activities:			\$ <u>19,471,345</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,604,628	\$ 635,967	\$ 2,240,595
2013	1,600,150	560,011	2,160,161
2014	1,585,940	483,010	2,068,950
2015	1,585,940	406,419	1,992,359
2016	1,581,380	330,065	1,911,445
2017-2021	4,531,010	817,644	5,348,654
2022-2026	<u>2,220,000</u>	<u>238,905</u>	<u>2,458,905</u>
Total	\$ <u>14,709,048</u>	\$ <u>3,472,021</u>	\$ <u>18,181,069</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,500,524	\$ 551,763	\$ 2,052,287
2013	1,511,385	503,185	2,014,570
2014	1,517,655	453,224	1,970,879
2015	1,544,737	403,432	1,948,169
2016	1,569,817	353,951	1,923,768
2017-2021	6,794,264	1,125,471	7,919,735
2022-2026	3,784,849	328,107	4,112,956
2027-2031	<u>1,248,114</u>	<u>63,208</u>	<u>1,311,322</u>
Total	\$ <u>19,471,345</u>	\$ <u>3,782,341</u>	\$ <u>23,253,686</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/10</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/11</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/11</u>
Governmental Activities:						
Bonds payable	\$ 16,443	\$ -	\$ (1,734)	\$ 14,709	\$ (1,605)	\$ 13,104
Net OPEB obligation	5,450	6,082	(2,395)	9,137	-	9,137
Accrued employee benefits	<u>534</u>	<u>75</u>	<u>(1)</u>	<u>608</u>	<u>(30)</u>	<u>578</u>
Total	\$ <u>22,427</u>	\$ <u>6,157</u>	\$ <u>(4,130)</u>	\$ <u>24,454</u>	\$ <u>(1,635)</u>	\$ <u>22,819</u>
Business-Type Activities:						
Bonds payable	\$ 20,821	\$ -	\$ (1,349)	\$ 19,472	\$ (1,501)	\$ 17,971
Accrued employee benefits	<u>139</u>	<u>3</u>	<u>(1)</u>	<u>141</u>	<u>-</u>	<u>141</u>
Total	\$ <u>20,960</u>	\$ <u>3</u>	\$ <u>(1,350)</u>	\$ <u>19,613</u>	\$ <u>(1,501)</u>	\$ <u>18,112</u>

D. Advance and Current Refundings

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2011, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 10,255,000.

13. 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.

14. 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 by Town Council, capital reserve funds set aside by Town Council 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 (in thousands):

	<u>General Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 600	\$ 600
	<u>\$ -</u>	<u>\$ 600</u>	<u>\$ 600</u>
Restricted			
Bonded projects	\$ -	\$ 178	\$ 178
Special revenue funds	-	3,251	3,251
Expendable permanent funds	-	150	150
	<u>\$ -</u>	<u>\$ 3,579</u>	<u>\$ 3,579</u>

(continued)

(continued)

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Committed			
Stabilization funds	\$ 1,166	\$ -	\$ 1,166
Capital project funds	<u>-</u>	<u>40</u>	<u>40</u>
	<u>\$ 1,166</u>	<u>\$ 40</u>	<u>\$ 1,206</u>
Assigned			
Encumbrances	\$ 207	\$ -	\$ 207
Reserved for expenditures	<u>340</u>	<u>-</u>	<u>340</u>
	<u>\$ 547</u>	<u>\$ -</u>	<u>\$ 547</u>
Unassigned	<u>\$ 2,354</u>	<u>\$ (496)</u>	<u>\$ 1,858</u>

15. Commitments and Contingencies

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

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.

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.

16. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Amesbury Contributory Retirement System (ACRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the ACRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the ACRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The ACRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2010:

Retirees and beneficiaries receiving benefits	220
Terminated plan members entitled to but not yet receiving benefits	73
Active plan members	<u>261</u>
Total	<u>554</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ 1,497,495	100%
2003	1,813,285	100%
2004	1,960,887	100%
2005	1,885,653	100%
2006	2,016,340	100%
2007	2,103,039	100%
2008	2,615,125	100%
2009	2,717,707	100%
2010	2,730,354	100%
2011	2,837,492	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due.

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Amesbury Contributory Retirement System's most recent valuation.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/10	\$ 35,793,709	\$ 69,010,578	\$ 33,216,869	51.9%	\$ 12,048,107	275.7%

The Schedule of Funding Progress following the Notes to the Financial Statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the individual entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 33.2 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2010, the unfunded actuarially accrued liability is being amortized over 23 years using an asset smoothing method.

E. 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 unavailable.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 4,428,339 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

17. Post-Employment Healthcare and Life Insurance

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment healthcare and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2011, the actuarial valuation date, approximately 465 retirees and 356 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, dental, 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 a variable portion of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 5,891,102
Interest on net OPEB obligation	190,761
Adjustment to ARC	<u>(175,192)</u>
Annual OPEB cost	5,906,671
Contributions made	<u>(2,219,664)</u>
Increase in net OPEB obligation	3,687,007
Net OPEB obligation - beginning of year	<u>5,450,318</u>
Net OPEB obligation - end of year	<u><u>\$ 9,137,325</u></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	\$ 5,906,671	38%	\$ 9,137,325
2010	\$ 5,177,883	46%	\$ 5,450,318
2009	\$ 4,953,684	46%	\$ 2,655,061

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 June 30, 2011, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 93,571,188
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 93,571,188</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 28,915,767</u>
UAAL as a percentage of covered payroll	<u>323.6%</u>

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

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advanced funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 8.5% which decreases to a 5.0% 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 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

18. 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.

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

June 30, 2011

(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/10	\$ 35,793,709	\$ 69,010,578	\$ 33,216,869	52%	\$ 12,048,107	276%
01/01/08	\$ 39,214,087	\$ 60,053,154	\$ 20,839,067	65%	\$ 11,374,648	183%
01/01/06	\$ 31,892,926	\$ 56,634,407	\$ 24,741,481	56%	\$ 11,652,440	212%
01/01/04	\$ 27,735,259	\$ 47,405,492	\$ 19,670,233	59%	\$ 10,572,920	186%
01/01/03	\$ 23,420,773	\$ 43,172,723 *	\$ 19,751,950	54%	\$ 10,873,793	182%
01/01/02	\$ 25,271,096	\$ 40,814,053	\$ 15,542,957	62%	\$ 10,380,709	150%
01/01/01	\$ 26,423,203	\$ 33,559,596 *	\$ 7,136,393	79%	\$ 10,111,418	71%
01/01/00	\$ 26,456,262	\$ 32,666,646 *	\$ 6,210,384	81%	\$ 9,584,283	65%
01/01/99	\$ 22,632,257	\$ 31,623,381	\$ 8,991,124	72%	\$ 9,084,628	99%
01/01/98	\$ 19,442,070	\$ 26,500,886	\$ 7,058,816	73%	\$ 7,165,112	99%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/11	\$ -	\$ 93,574,188	\$ 93,574,188	0.0%	\$ 28,915,767	323.6%
06/30/09	\$ -	\$ 81,294,859	\$ 81,294,859	0.0%	\$ 28,069,341	289.6%

See Independent Auditors' Report.

* = Estimated amounts

TOWN OF AMESBURY, MASSACHUSETTS
 SCHEDULE OF REVENUES AND EXPENDITURES
 AND OTHER USES - BUDGET AND ACTUAL
 SEWER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ <u>2,619,652</u>	\$ <u>2,544,080</u>	\$ <u>(75,572)</u>
Total Revenues	2,619,652	2,544,080	(75,572)
Expenditures:			
Personnel services	736,397	740,486	(4,089)
Supplies and materials	662,097	647,281	14,816
Capital outlay	97,500	100,929	(3,429)
Debt service	<u>1,123,658</u>	<u>1,119,327</u>	<u>4,331</u>
Total Expenditures	<u>2,619,652</u>	<u>2,608,023</u>	<u>11,629</u>
Excess of Revenues over Expenditures	\$ <u><u>-</u></u>	\$ <u><u>(63,943)</u></u>	\$ <u><u>(63,943)</u></u>

See Independent Auditors' report.

TOWN OF AMESBURY, MASSACHUSETTS
 SCHEDULE OF REVENUES AND EXPENDITURES,
 AND OTHER USES - BUDGET AND ACTUAL
 WATER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ 2,983,996	\$ 2,955,426	\$ (28,570)
Total Revenues	<u>2,983,996</u>	<u>2,955,426</u>	<u>(28,570)</u>
Expenditures:			
Personnel services	1,103,321	1,127,800	(24,479)
Supplies and materials	1,023,676	828,561	195,115
Capital outlay	-	-	-
Debt service	<u>856,999</u>	<u>659,976</u>	<u>197,023</u>
Total Expenditures	<u>2,983,996</u>	<u>2,616,337</u>	<u>367,659</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$ 339,089</u>	<u>\$ 339,089</u>

See Independent Auditors' report.