

TOWN OF SALISBURY, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2009

TOWN OF SALISBURY, MASSACHUSETTS

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Selectmen
Town of Salisbury, 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 Salisbury, Massachusetts, as of and for the year ended June 30, 2009 which collectively comprise the Town of Salisbury, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Salisbury, Massachusetts. Our responsibility is to express an opinion on these basic 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 basic 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 Salisbury, Massachusetts, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2009, on our consideration of the District's internal control over financial reporting and 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.

The Management's discussion and analysis on pages 2 –8, the funding and contribution progress for pension benefits and other post employment benefits on page 33, and budgetary comparison information on pages 34 - 35, are not a required part of the basic financial statements but are supplementary information required by accounting principals 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.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
October 3, 2009

Management's Discussion and Analysis

As the management of the Town of Salisbury, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found on pages 9 – 35. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$35.8 million (*total net assets*). Of this amount, approximately \$5.1 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by approximately \$1.1 million or approximately 3.2% year to year. Increases in the Business type funds of approximately \$1.5 million were offset by decreases in the governmental type funds of approximately \$0.4 million. An intergovernmental grant of approximately \$1.5 million for sewer construction contributed to this net increase. In Governmental type funds total net assets decreased due to the adoption of the provisions of GASB 45, *Accounting For Post Employment Benefits*. The implementation of this pronouncement resulted in a reduction to unrestricted net assets of approximately \$0.2 million.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$1.8 million. This represents a decrease of approximately \$0.2 million over the previous year. This was mainly a result of the need to use stabilization balances to supplement general fund appropriations. Of the ending fund balance approximately \$1.0 million is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.
- The accounting treatment for certain items vary greatly between the Statement of Net Assets and the Governmental Fund Balance Sheet, thus the significant differences in equity and fund balance amounts between the two statements noted above. A reconciliation has been provided on page 13 of the accompanying basic financial statements to assist the reader to understand these differences.
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$0.9 million, or approximately 5.0% percent of total general fund expenditures.
- The Town's total long-term debt was decreased by approximately \$0.9 million due to scheduled pay downs of debt. Additionally, the Town issued bond anticipation notes in the amount of \$1.0 million to fund the costs of a sewer project as well as general capital improvements. The town anticipates bonding these amounts at a later date.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements (pages 9-10), 2) fund financial statements (pages 11-12), and 3) notes to the financial statements (pages 18-32). This report also contains other supplementary information (pages 33-35) 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 the Town's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (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 of the Town include general government, public safety, highways and streets, sanitation, education, economic development, debt service, fringe benefits and culture and recreation. The business-type activities of the Town include water and sewer enterprise funds.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds, and proprietary 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. Reconciliations are provided on pages 13-14 to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and stabilization fund. Data from the other three governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found on page 34 of this report.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Proprietary Funds. The Town maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer enterprises.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer enterprises. The basic proprietary fund financial statements can be found on pages 15-17 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-32 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by approximately \$35.8 million (see Exhibit I on page 7) at the close of the most recent fiscal year.

By far the largest portion (approximately 74.9%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (approximately 11%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 14.1%), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's total net assets increased by approximately \$1.1 million or approximately 3.2% year to year. (See Exhibit II on page 8) Increases in the Business type funds of approximately \$1.5 million were offset by decreases in the governmental type funds of approximately \$0.4 million. An intergovernmental grant of approximately \$1.5 million for sewer construction contributed to this net increase. In Governmental type funds total net assets decreased due to the adoption of the provisions of GASB 45, *Accounting For Post Employment Benefits*. The implementation of this pronouncement resulted in a reduction to unrestricted net assets of approximately \$0.2 million.

Major revenue sources consist of revenue from Property Taxes, which were 73.7% of total revenues, up from 71.3% in the prior year. No other revenue sources exceed 10% of total revenues. Major expenditures were for Public Safety, 18.8% of total expenditures down from 19.4% in the prior year; Education, 47.6% of total expenditures down from 48.9% in the prior year and pension/fringe benefits 10.7% of total expenditures up from 9.3% in the prior year due to the implementation of GASB 45.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of approximately \$1.8 million. This represents a decrease of approximately \$0.2 million over the previous year. This was mainly a result of the need to use stabilization balances to supplement general fund appropriations. Of the ending fund balance approximately \$1.0 million is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was approximately \$0.9 million, while total fund balance reached approximately \$1.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 5.0 percent of total general fund expenditures, while total fund balance represents approximately 5.5 percent of that same amount.

The stabilization fund has a total fund balance of approximately \$0.1 million. These are unencumbered accumulated financial resources that are subject to appropriation as directed by the Town's legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise during the year. Fiscal year 2009 activity represented amounts transferred to the general fund to supplement operating activities.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net assets of the water fund were approximately \$0.7 million; and net assets of the sewer fund amounted to approximately \$25.6 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately \$0.2 million. The schedule of budgetary information is provided on page 34.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business type activities as of June 30, 2009, amounts to approximately \$44.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and reflects an increase of approximately \$2.4 million net of depreciation. During the year, the Town intensified its capital improvement activities regarding sewer construction.

Capital Assets (000's)			
	Governmental	Business Type	Total
Land	\$ 2,818	\$ 1,753	\$ 4,571
Buildings and improvements	2,893	-	2,893
Infrastructure	5,926	46,829	52,755
Machinery and equipment	1,105	343	1,448
Vehicles	2,165	175	2,340
	<u>14,907</u>	<u>49,100</u>	<u>64,007</u>
Less: Accumulated depreciation	(7,570)	(16,160)	(23,730)
Construction in progress		4,459	4,459
Total capital assets	<u>\$ 7,337</u>	<u>\$ 37,399</u>	<u>\$ 44,736</u>

Additional information on the Town capital assets can be found in note III. D on pages 24-25 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$15.0 million. The entire amount comprises debt backed by the full faith and credit of the government. Of this amount approximately \$0.9 million represents general obligation bonds of governmental activities and approximately \$14.1 million represents general obligation bonds of business-type activities.

The Town's total long-term debt was decreased by approximately \$0.9 million due to scheduled pay downs of debt. Additionally, the Town issued bond anticipation notes in the amount of \$1.0 million to fund the costs of a sewer project as well as general capital improvements. The town anticipates bonding these amounts at a later date.

The Town will receive reimbursements for principal pay down of these notes in the amount of approximately \$0.3 million and future interest also in the amount of approximately \$0.3 million as of the year ended June 30, 2009 from the Massachusetts Water Pollution Abatement Trust (MWPAT).

The last bond rating received by the Town was an "A2" as set by Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$75.1 million, which is significantly in excess of the Town's outstanding general obligation debt.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town's boundaries. The debt service from such arrangements is assessed annually to the Town.

Additional information on the Town's debt can be found in note III.E and F on pages 28-29 of this report.

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates have been increasing steadily over the past 12 months and this is anticipated to continue.
- The Town relies heavily on its commercial and industrial tax base (approximately 16.9% of total taxes). Residential taxes account for approximately 81.7% and the remainder is for personal property. The Town has experienced significant new growth in each of the last 5 fiscal years and the Town relies on this strong annual new growth to fund its subsequent year activities. New growth for 2009, 2008, 2007, 2006 and 2005 were 3.0%, 2.8%, 6.6%, 6.1% and 3.8% respectively, and have added approximately \$3.3 million to the tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year tax levy.
- Consistent with both State and National indices, the Town's housing market is in a downward trend. Housing prices are approximately 20% lower than their 2005 peaks.
- The Town expects to set its tax rate for 2010 in December 2009.

The above items were considered when the Town developed its budget for fiscal year 2010.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Town Accountant, Town Hall, 5 Beach Road, Salisbury, Massachusetts 01952.

Government-Wide Financial Analysis
Exhibit I

Net Assets						
	Governmental activities		Business activities		Total	
<u>Assets</u>	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 5,323	\$ 5,342	\$ 6,528	\$ 7,705	\$ 11,851	\$ 13,047
Capital assets, net	7,337	7,225	37,398	35,160	44,735	42,385
Total assets	12,660	12,568	43,926	42,865	56,586	55,433
<u>Liabilities</u>						
Long term liabilities	1,526	1,585	13,350	14,083	14,876	15,668
Other liabilities	1,673	1,118	4,251	3,958	5,924	5,076
Total liabilities	3,199	2,703	17,601	18,040	20,800	20,743
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,890	5,828	20,904	18,960	26,795	24,789
Restricted	236	231	3,692	3,526	3,928	3,757
Unrestricted	3,335	3,806	1,728	2,338	5,063	6,144
Net Assets	\$ 9,461	\$ 9,865	\$ 26,325	\$ 24,824	\$ 35,786	\$ 34,689

Government-Wide Financial Analysis
Exhibit II

Changes in Net Assets						
	Governmental activities		Business activities		Total	
	2009	2008	2009	2008	2009	2008
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,254	\$ 1,143	\$ 3,640	\$ 4,097	\$ 4,894	\$ 5,240
Operating grants and contributions	1,771	1,758	245	-	2,016	1,758
Capital grants and contributions	303	106	1,525	49	1,828	155
General revenues:						
Property taxes	14,375	13,361	-	-	14,375	13,361
Intergovernmental	666	1,020	-	-	666	1,020
Other	1,127	1,342	61	132	1,188	1,473
Total revenues	19,497	18,730	5,470	4,278	24,967	23,008
<u>Expenditures</u>						
General government	1,759	1,637	-	-	1,759	1,637
Public safety	3,810	3,699	-	-	3,810	3,699
Education	9,659	9,309	-	-	9,659	9,309
Public works	1,397	1,309	-	-	1,397	1,309
Human services	329	311	-	-	329	311
Culture and recreation	243	279	-	-	243	279
Pension and fringe benefits	2,166	1,782	-	-	2,166	1,782
State and county	167	215	-	-	167	215
Debt service	65	54	641	875	707	930
Other	667	431	-	-	667	431
Water	-	-	1,538	1,201	1,538	1,201
Sewer	-	-	1,429	1,564	1,429	1,564
Total expenses	20,262	19,028	3,608	3,640	23,870	22,668
Excess (deficiency) of revenues over expenditures	(765)	(298)	1,862	637	1,097	898
Transfers	362	311	(362)	(311)	-	-
Increase in net assets	(403)	14	1,501	326	1,097	898
Net assets, beginning of year	9,865	9,851	24,824	24,498	34,689	34,349
Net assets, end of year	\$ 9,461	\$ 9,865	\$ 26,325	\$ 24,824	\$ 35,786	\$ 34,689

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 2,629,033	\$ 3,443,333	\$ 6,072,386
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	400,334	-	400,334
User charges	-	470,994	470,994
Other	148,828	-	148,828
Betterments	-	9,050	9,050
Intergovernmental	394,800	153,235	548,035
Bond defeasance - current portion	-	128,500	128,500
Total Current Assets	3,572,993	4,205,132	7,778,127
NONCURRENT:			
Restricted:			
Cash	236,299	-	236,299
Receivables:			
Other	1,274,660	-	1,274,660
Betterments	-	2,015,189	2,015,189
Intergovernmental	239,047	92,031	331,078
Bond defeasance - long term portion	-	215,250	215,250
Land	2,818,550	1,753,000	4,571,550
Construction in Process	-	4,458,990	4,458,990
Depreciable Capital Assets, net of accumulated depreciation	4,518,630	31,186,288	35,704,918
TOTAL ASSETS	12,660,181	43,925,880	56,586,061
LIABILITIES			
CURRENT:			
Warrants and accounts payable	141,423	225,436	366,859
Accrued payroll and withholdings	232,067	-	232,067
Deposits	20,353	-	20,353
Interest expense	31,921	293,084	325,005
Other	38,323	-	38,323
Bond anticipation note payable	730,000	3,000,000	3,730,000
Current portion of debt	92,183	732,300	824,483
Current portion of capital lease obligations	104,376	-	104,376
Current portion of compensated absences	36,504	-	36,504
Other post-employment benefits	225,710	-	225,710
Current portion of post-monitoring landfill costs	20,000	-	20,000
Total Current Liabilities	1,672,860	4,250,820	5,923,680
NONCURRENT:			
Long- term portion of bond and note indebtedness	840,644	13,350,500	14,191,144
Long-term of capital lease obligations	284,164	-	284,164
Long-term portion of compensated absences	36,504	-	36,504
Long-term portion of post-monitoring landfill costs	364,500	-	364,500
TOTAL LIABILITIES	3,198,672	17,601,320	20,799,992
NET ASSETS			
Invested in capital assets, net of related debt	5,890,453	20,904,494	26,794,947
Restricted for			
Perpetual funds	236,299	-	236,299
Debt service	-	3,691,590	3,691,590
Unrestricted	3,334,757	1,728,476	5,063,233
NET ASSETS	\$ 9,461,509	\$ 26,324,560	\$ 35,786,069

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS								
<u>Governmental Activities:</u>								
General government	\$ 1,759,332	\$ -	\$ 355,346	\$ 1,756	\$ 3,567	\$ (1,398,663)	\$ -	\$ (1,398,663)
Public safety	3,809,604	-	721,637	343,142	-	(2,744,825)	-	(2,744,825)
Education	9,658,939	-	10,800	-	-	(9,648,139)	-	(9,648,139)
Public works	1,396,740	-	-	155,113	282,016	(959,611)	-	(959,611)
Health and human services	329,187	-	146,059	139,501	-	(43,627)	-	(43,627)
Culture and recreation	242,896	-	150	19,427	-	(223,319)	-	(223,319)
Pension and fringe benefits	2,166,100	-	-	78,196	-	(2,087,904)	-	(2,087,904)
State and county charges	166,937	-	-	-	-	(166,937)	-	(166,937)
Debt service	65,496	-	-	-	17,915	(47,581)	-	(47,581)
Community development	666,724	-	20,480	1,034,371	-	388,127	-	388,127
Total Governmental Activities	20,261,955	\$ -	1,254,472	1,771,506	303,498	(16,932,479)	-	(16,932,479)
<u>Business-Type Activities:</u>								
Water and sewer services	3,608,591	-	3,639,799	244,714	1,524,642	-	\$ 1,800,564	\$ 1,800,564
Total Primary Government	\$ 23,870,546	-	\$ 4,894,271	\$ 2,016,220	\$ 1,828,140	(16,932,479)	\$ 1,800,564	(15,131,915)
<u>General Revenues:</u>								
Real and personal property taxes						14,374,632	-	14,374,632
Motor vehicle and other excise						950,800	-	950,800
Penalties and interest on taxes						127,303	-	127,303
Intergovernmental						666,006	-	666,006
Investment income						48,671	61,286	109,957
Transfers (net)						361,721	(361,721)	-
Total general revenues and transfers						16,229,133	(300,435)	16,228,698
Change in Net Assets						(403,346)	1,500,129	1,096,783
<u>Net Assets:</u>								
Beginning of year						9,864,855	24,824,431	34,689,286
End of year						\$ 9,461,509	\$ 26,324,560	\$ 35,786,069

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 1,422,039	\$ 125,244	\$ 1,081,750	\$ 2,629,033
Receivables, net of allowance for uncollectibles				
Real estate and personal property taxes	400,334	-	-	400,334
Other	1,423,488	-	-	1,423,488
Due from Commonwealth	259,140	-	359,182	618,322
Cash - restricted	-	-	236,299	236,299
Total Assets	\$ 3,505,001	\$ 125,244	\$ 1,677,231	\$ 5,307,476
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants and accounts payable	\$ 126,012	\$ -	\$ 15,411	\$ 141,423
Accrued payroll and withholdings	228,016	-	4,052	232,068
Deposits	20,353	-	-	20,353
Other	38,323	-	-	38,323
Bond anticipation note payable	-	-	730,000	730,000
Deferred revenues	2,082,962	-	249,884	2,332,846
Total Liabilities	2,495,666	-	999,347	3,495,013
FUND BALANCES:				
Reserved for:				
Encumbrances	88,709	-	-	88,709
Stabilization	-	125,244	-	125,244
Unreserved:				
Undesignated, reported in:				
General fund	920,626	-	-	920,626
Capital projects funds	-	-	(747,269)	(747,269)
Special revenue funds	-	-	1,188,854	1,188,854
Permanent funds	-	-	236,299	236,299
Total Fund Balances	1,009,335	125,244	677,884	1,812,463
Total Liabilities and Fund Balances	\$ 3,505,001	\$ 125,244	\$ 1,677,231	\$ 5,307,476

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
JUNE 30, 2009**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes, net	\$ 14,357,133	\$ -	\$ -	\$ 14,357,133
Intergovernmental	1,242,916	-	1,560,445	2,803,361
Motor vehicle and other excises	962,818	-	-	962,818
Departmental and other revenue	464,921	-	450,232	915,153
Licenses and permits	270,867	-	-	270,867
Penalties and interest on taxes	127,303	-	-	127,303
Fines and forfeits	72,019	-	-	72,019
Investment income	33,435	6,805	8,431	48,671
Contributions and donations	-	-	14,241	14,241
Total Revenues	<u>17,531,412</u>	<u>6,805</u>	<u>2,033,349</u>	<u>19,571,566</u>
OTHER FINANCING SOURCES				
Proceeds from capital leases	-	-	245,103	245,103
Transfers in	<u>687,335</u>	<u>-</u>	<u>-</u>	<u>687,335</u>
Total Other Financing Sources	<u>687,335</u>	<u>-</u>	<u>245,103</u>	<u>932,438</u>
Total Revenues and Other Financing Sources	<u>18,218,747</u>	<u>6,805</u>	<u>2,278,452</u>	<u>20,504,004</u>
EXPENDITURES				
General government	1,563,248	-	226,668	1,789,916
Public safety	3,255,781	-	589,063	3,844,844
Education	9,658,939	-	-	9,658,939
Public works	1,046,470	-	560,363	1,606,833
Health and human services	315,860	-	13,327	329,187
Culture and recreation	170,356	-	31,101	201,457
Pensions and fringe benefits	1,940,390	-	-	1,940,390
State and county tax assessments	166,937	-	-	166,937
Debt service	141,845	-	-	141,845
Community Development	<u>-</u>	<u>-</u>	<u>666,724</u>	<u>666,724</u>
Total Expenditures	<u>18,259,826</u>	<u>-</u>	<u>2,087,246</u>	<u>20,347,072</u>
OTHER FINANCING USES				
Transfers out	<u>-</u>	<u>195,000</u>	<u>130,614</u>	<u>325,614</u>
Total Expenditures and Other Financing Uses	<u>18,259,826</u>	<u>195,000</u>	<u>2,217,860</u>	<u>20,672,686</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(41,079)	(188,195)	60,592	(168,682)
FUND BALANCES, JULY 1, 2008	<u>1,050,414</u>	<u>313,439</u>	<u>617,292</u>	<u>1,981,145</u>
FUND BALANCES, June 30, 2009	<u>\$ 1,009,335</u>	<u>\$ 125,244</u>	<u>\$ 677,884</u>	<u>\$ 1,812,463</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total Governmental Fund Balances	\$ 1,812,463
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,337,180
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	2,332,846
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(16,395)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds and notes payable	(932,827)
Capital lease obligations	(388,540)
Compensated absences	(73,008)
Other post-employment benefits	(225,710)
Post-monitoring landfill costs	<u>(384,500)</u>
Net Assets of Governmental Activities	<u>\$ 9,461,509</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ (168,682)**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays amounted to \$473,507 and depreciation expense totaled \$361,677. The net amount is reflected here as a reconciling item. 111,830

The issuance of long-term debt 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 has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Debt payments were \$90,511 and there were no proceeds. 90,511

The issuance of capital leases provides current financial resources to the governmental funds, while the repayment of the principal consumes the financial resources of governmental funds. Neither has any effect on net assets. Capital lease issuance proceeds were \$245,103 and principal payments were \$102,648. (142,455)

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 differ between the two statements. The amount presented represents the difference based on the two methodologies. (73,902)

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This represents the difference between the accruals between this year and the prior year. (14,938)

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:

Compensated absences	-
Other post-employment benefits	(225,710)
Post-monitoring landfill costs	<u>20,000</u>

Change in Net Assets of Governmental Activities **\$ (403,346)**

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 1,780,616	\$ 1,662,737	\$ 3,443,353
Receivables:			
User charges	298,028	172,966	470,994
Betterments	-	9,050	9,050
Due from Commonwealth	-	153,235	153,235
Loss from bond defeasance	126,000	2,500	128,500
Total Current Assets	2,204,644	2,000,488	4,205,132
NONCURRENT:			
Receivables - Betterments	-	2,015,189	2,015,189
Due from Commonwealth	-	92,031	92,031
Loss from bond defeasance	215,250	-	215,250
Land	369,002	1,383,998	1,753,000
Construction in process	26,206	4,432,784	4,458,990
Capital assets, net of accumulated depreciation	9,178,722	22,007,566	31,186,288
TOTAL ASSETS	11,993,824	31,932,056	43,925,880
LIABILITIES			
CURRENT:			
Warrants and accounts payable	97,742	127,694	225,436
Accrued interest	194,437	98,647	293,084
Bond anticipation notes payable	-	3,000,000	3,000,000
Current portion of debt	305,000	427,300	732,300
Total Current Liabilities	597,179	3,653,641	4,250,820
NONCURRENT:			
Long term portion of debt	10,665,000	2,685,500	13,350,500
TOTAL LIABILITIES	11,262,179	6,339,141	17,601,320
NET ASSETS			
Invested in capital assets, net of related debt	(1,054,820)	21,959,314	20,904,494
Reserved for debt service	-	3,691,590	3,691,590
Unrestricted	1,786,465	(57,989)	1,728,476
NET ASSETS	\$ 731,645	\$ 25,592,915	\$ 26,324,560

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2009**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 2,035,730	\$ 1,482,715	\$ 3,518,445
Proceeds from legal settlement	244,714	-	244,714
Total Operating Revenues	2,280,444	1,482,715	3,763,159
OPERATING EXPENSES			
Operating costs	1,232,561	707,923	1,940,484
Depreciation	306,203	720,807	1,027,010
Total Operating Expenses	1,538,764	1,428,730	2,967,494
OPERATING INCOME	741,680	53,985	795,665
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	98,310	1,426,332	1,524,642
Betterments	-	121,354	121,354
Interest income	24,230	37,056	61,286
Interest expense	(488,551)	(152,546)	(641,097)
Transfers out	(94,116)	(267,605)	(361,721)
Total Nonoperating Revenues (Expenses), net	(460,127)	1,164,591	704,464
CHANGE IN NET ASSETS	281,553	1,218,576	1,500,129
NET ASSETS AT BEGINNING OF YEAR	450,092	24,374,339	24,824,431
NET ASSETS AT END OF YEAR	<u>\$ 731,645</u>	<u>\$ 25,592,915</u>	<u>\$ 26,324,560</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS -
YEAR ENDED JUNE 30, 2009

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from users	\$2,001,286	\$ 1,436,447	\$3,437,733
Proceeds from legal settlement	244,714	-	244,714
Payments to vendors and employees	(1,176,800)	(1,127,123)	(2,303,923)
Net Cash Provided by (Used for) Operating Activities	1,069,200	309,324	1,378,524
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Due to/from	(93,474)	(142,711)	(236,185)
Receipts from betterments	-	433,840	433,840
Transfers out	(94,116)	(267,605)	(361,721)
Net Cash Used for Noncapital Related Financing Activities	(187,590)	23,524	(164,066)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(80,257)	(3,184,927)	(3,265,184)
Government subsidy	98,310	1,294,566	1,392,876
Interest income	24,230	37,056	61,286
Issuance of bond anticipation notes	-	1,000,000	1,000,000
Principal payments on bonds and notes	(290,000)	(526,400)	(816,400)
Interest expense	(366,780)	(141,296)	(508,076)
Net Cash Used for Capital and Related Financing Activities	(614,497)	(1,521,001)	(2,135,498)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Other	-	-	-
Net Cash Provided by Investing Activities	-	-	-
NET CHANGE IN CASH AND EQUIVALENTS	267,113	(1,188,153)	(921,040)
CASH AND EQUIVALENTS:			
July 1, 2008	1,513,503	2,850,890	4,364,393
June 30, 2009	\$1,780,616	\$ 1,662,737	\$3,443,353
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED			
BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 741,680	\$ 53,985	\$ 795,665
Depreciation	306,203	720,807	1,027,010
Changes in assets and liabilities:			
Receivables (net)	(34,444)	(46,268)	(80,712)
Accounts payable	55,761	(419,200)	(363,439)
Net Cash Provided From Operating Activities	\$1,069,200	\$ 309,324	\$1,378,524
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Borrowing under capital leases	-	-	-
Contributions of capital assets from General Fund	-	-	-
Purchase of equipment on account	-	-	-
Increase in fair value of investments	-	-	-
Capital asset trade-ins	-	-	-
Amortization of loss from bond defeasance	126,000	30,000	156,000

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2009

I. Summary of Significant Accounting Policies

The basic financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town:

- A. Reporting Entity** - The Town of Salisbury is located in Essex County, approximately 40 miles north of Boston. The Town is bordered on its northern side by the State of New Hampshire and on its eastern side by the Atlantic Ocean. The Town was incorporated 1638. The governing structure utilizes an open town meeting forum, with an elected five-member Board of Selectmen, and an appointed Town Manager who performs and oversees the daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. The water and sewer services are funded almost entirely with user charges and are provided via connections to Town owned facilities.
- B. Individual Component Unit Disclosures** - Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to this criteria there are no component units required to be included in the financial statements.
- C. Government-Wide and Fund 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 non-fiduciary activities of the primary government and its component units. 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 legal *component units*, if any 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 or 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*. Separate financial statements are provided for Governmental Funds and Proprietary Funds. Major individual Governmental Funds are reported as separate columns in the fund financial statements.
- D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation** – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary funds. 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. 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, when material, to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However expenditures related to debt service, compensated absences, claims and judgments, and risk financing, are recorded only when payment is due. Property taxes, licenses, and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major Governmental Funds:

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.

Stabilization Fund – is used to account for certain unencumbered accumulated financial resources that are subject to appropriation as directed by the Town’s Legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise during the year.

The government reports the following major proprietary funds:

Enterprise Fund – uses the “economic resources” measurement focus to account for the following specific operations in a manner similar to private business enterprises:

Water – accounts for user charges collected to finance costs associated with maintaining the related infrastructure by which water activities are processed within the Town boundaries.

Sewer – accounts for user charges collected to finance costs associated with maintaining the related infrastructure by which sewage waste disposal activities are processed within the Town boundaries.

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 GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected to follow private-sector guidance. As a general rule the *effect* of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the Town’s water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. 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. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources, as they are needed.

E. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Investments for the Town are reported at fair value.

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Receivables – All property tax and trade receivables are shown net of an allowance for doubtful collections comprised of those outstanding amounts greater than five years old. Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the rate of 14% per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes.

The Town has arrangements whereby funds are advanced to developers under various Urban Development Action Grants (UDAG) and Residential Rehabilitation agreements. The Town loans funds to owners of commercial and residential properties for the purpose of rehabilitating these properties. The Town receives these funds from the U.S. Department of Housing and Urban Development (HUD) under Community Development Block Grant (CDBG) programs for the Town, and from loan repayments. These loans in certain situations are repaid to the Town under various terms and conditions stipulated by each mortgage agreement. The collected proceeds of these loans may be used for any eligible activity relevant to the community development program. The present loan amounts are not recorded as receivables in the financial statement as their collection is not anticipated in accordance with the guidelines established in the loan agreements.

The Town has entered into loan agreements since December 1998 with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT in subsequent years on a periodic basis for principal and interest costs relative to governmental-type activities until maturity of these agreements. The Town is legally obligated for the total amount of the debt so such amounts have been recorded in the accompanying basic financial statements under the applicable governmental and business-type activities. In addition, a receivable has also been reflected for the principal amount of the subsidies.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town 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 is depreciated using the straight line method over the following estimated useful lives:

Structures and improvements	40 years
Infrastructure	25 - 50 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

Compensated Absences – It is the Town’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Amounts related to these benefits are 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.

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. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds. Bond anticipation notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts as other financing uses. Issuance costs are exclusively reported as debt service expenditures regardless of whether they are withheld from the actual proceeds.

Risk Financing – The Town insures for workers' compensation, health, unemployment benefits, casualty, theft, or other losses. Uninsured losses are recorded as expenditures when incurred.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as a significant aspect of budgetary control in the Governmental Fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

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

II. Stewardship, Compliance and Accountability

- A. **Budgetary Information** – An annual budget is legally adopted for the General Fund and the Enterprise Fund. Financial orders are initiated by department heads, recommended by the Finance Committee and approved by Town Meeting annually in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town Meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town Meeting however must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance.

- B. Excess of Expenditures Over Appropriations** – During fiscal year 2009 the Town exceeded its appropriation for Veteran’s Administration by approximately \$63,000. The Town anticipates raising this on its 2010 tax recapitulation sheet.
- C. Fund Balance Deficits** – The Town’s Capital Project Fund has a legal deficit fund balance of \$647,536. The Town anticipates raising this deficit through future bond offerings.

III. Detailed Notes to All Funds

- A. Deposits and Investments** - Cash and equivalents include cash on hand and certificates of deposit with maturities of three months or less. Investments include Certificates of Deposit with maturities of three to twelve months. The Town maintains a separate cash account for all funds.

GAAP requires disclosure for any investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty’s trust department or agent but not in the government’s name. The Town does not maintain any investments subject to these classifications. In addition, GAAP requires the following disclosures relative to deposits and investments.

Interest rate risk. Although the Town does not maintain a formal investment policy, the Town manages its exposure to declines in fair market value by limiting the average maturity of its deposits to twelve months or less.

Credit risk. The Town follows State Statutes. These Statutes require the Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer’s investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a U.S. obligation. During the fiscal year, the Town limited its investments to certificates of deposit, money market accounts, and bank deposits.

Concentration of credit risk The Town does not maintain balances in any single investment that would represent more than 5% of the Town’s total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2009, the carrying amount of the Town’s deposits was \$1,190,088 and the bank balance was \$1,445,592. Of the Town’s bank balance, \$437,265 was covered by either federal depository insurance or by the depositors’ insurance fund. The remainder was uninsured and uncollateralized.

Custodial credit risk – investments The Town does not maintain any investments subject to this credit risk.

At June 30, 2009, the Town’s investments at approximate fair value consist of the following:

Money market investment	\$ 5,118,597
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The following is a reconciliation of cash and short-term investments as summarized above to the balance as recorded on the balance sheet:

	<u>Investments</u>	<u>Cash and Cash Equivalents</u>
As presented above	\$ 5,118,597	\$ 1,190,088
Reclassify Money market funds reported in the combined balance sheet as cash	<u>(5,118,597)</u>	<u>5,118,597</u>
Totals	<u>\$ -</u>	<u>\$ 6,308,685</u>

B. Receivables

Presentation Breakdown – Receivables as of year-end for the individual Major and Nonmajor Governmental Funds are as follows:

Property taxes	\$ 686,522
Tax liens	1,246,106
Excise	252,822
Other	28,564
Intergovernmental	<u>618,322</u>
Gross receivables	2,832,336
Allowance for uncollectible accounts	(<u>390,192</u>)
Net receivables	<u>\$ 2,442,144</u>

Receivables of enterprise funds consisted of the following:

User charges	\$ 380,883
Tax titles and liens	83,047
Betterments	2,031,304
Intergovernmental	<u>245,266</u>
Net receivables	<u>\$ 2,740,500</u>

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. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in Governmental Funds amounted to \$2,332,846.

C. Interfund Receivables, Payables and Transfers – Interfund transfers during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 687,335	\$ -
Stabilization	-	195,000
Non - major Governmental	-	130,614
Water: Business-Type	-	94,116
Sewer: Business-Type	<u>-</u>	<u>267,605</u>
Totals	<u>\$ 687,335</u>	<u>\$ 687,335</u>

The majority of the intergovernmental fund transfers were to fund operating activities of the General Fund and Capital Projects Fund activity in the Nonmajor Governmental Fund.

D. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>GOVERNMENTAL ACTIVITIES:</u>				
Capital assets not being depreciated:				
Land	\$ 2,818,550	\$ -	\$ -	\$ 2,818,550
Construction in process	-	-	-	-
Total capital assets not being depreciated	2,818,550	-	-	2,818,550
Capital assets being depreciated:				
Buildings and improvements	2,893,177	-	-	2,893,177
Infrastructure	5,838,202	87,500	-	5,925,702
Machinery and equipment	814,219	291,196	-	1,105,415
Vehicles	2,069,540	95,081	-	2,164,621
Total capital assets being depreciated	11,615,138	473,777	-	12,088,915
Less accumulated depreciation for:				
Buildings and improvements	(1,337,290)	(51,205)	-	(1,388,495)
Infrastructure	(3,951,363)	(80,998)	-	(4,032,361)
Machinery and equipment	(459,571)	(91,303)	-	(550,874)
Vehicles	(1,460,331)	(138,224)	-	(1,598,555)
Total accumulated depreciation	(7,208,555)	(361,730)	-	(7,570,285)
Total capital assets being depreciated, net	4,406,583	112,047	-	4,518,630
Governmental activities capital assets, net	<u>\$ 7,225,133</u>	<u>\$ 112,047</u>	<u>\$ -</u>	<u>\$ 7,337,180</u>
<u>BUSINESS ACTIVITIES:</u>				
Capital assets not being depreciated:				
Land	\$ 1,753,000	\$ -	\$ -	\$ 1,753,000
Construction in process	1,587,334	3,200,992	(329,336)	4,458,990
Total capital assets not being depreciated	3,340,334	3,200,992	(329,336)	6,211,990
Capital assets being depreciated:				
Infrastructure	46,439,979	388,532	-	46,828,511
Machinery and equipment	338,703	4,732	-	343,435
Vehicles	174,692	-	-	174,692
Total capital assets being depreciated	46,953,374	393,264	-	47,346,638
Less accumulated depreciation for:				
Infrastructure	(14,711,378)	(995,909)	-	(15,707,287)
Machinery and equipment	(268,085)	(24,163)	-	(292,248)
Vehicles	(153,877)	(6,938)	-	(160,815)
Total accumulated depreciation	(15,133,340)	(1,027,010)	-	(16,160,350)
Total capital assets being depreciated, net	31,820,034	(633,746)	-	31,186,288
Business activities capital assets, net	<u>\$ 35,160,368</u>	<u>\$ 2,567,246</u>	<u>\$ (329,336)</u>	<u>\$ 37,398,278</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
Capital assets not being depreciated:				
Water	\$ 369,002	\$ 26,206	\$ -	\$ 395,208
Sewer	2,971,333	3,174,786	(329,337)	5,816,782
Total capital assets not being depreciated	3,340,335	3,200,992	(329,337)	6,211,990
Capital assets being depreciated:				
Water	11,485,293	53,786	-	11,539,079
Sewer	35,468,081	339,478	-	35,807,559
Total capital assets being depreciated	46,953,374	393,264	-	47,346,638
Less accumulated depreciation for:				
Water	(2,054,154)	(306,203)	-	(2,360,357)
Sewer	(13,079,186)	(720,807)	-	(13,799,993)
Total accumulated depreciation	(15,133,340)	(1,027,010)	-	(16,160,350)
Total capital assets being depreciated, net	31,820,034	(633,746)	-	31,186,288
Business activities capital assets, net	\$ 35,160,369	\$ 2,567,246	\$ (329,337)	\$ 37,398,278

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 47,701
Public safety	140,334
Education	-
Public works	132,255
Health and human services	-
Culture and recreation	41,440
	<u>\$ 361,730</u>

Business-Type Activities:

Water	\$ 306,203
Sewer	720,807
	<u>\$ 1,027,010</u>

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes (TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds. Temporary notes outstanding at June 30, 2009, recorded in the Proprietary Funds are payable as follows:

Type	Interest Rate	Maturity Date	Amount
BAN – sewer	2.25%	7/24/09	\$ 2,730,000
BAN – capital	4.55%	7/24/09	1,000,000

During the year ended June 30, 2009, the following reflects the activity in the short-term liability accounts:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
<i>Governmental-type activities:</i>				
Bond anticipation notes	\$ 730,000	\$ 730,000	\$ (730,000)	\$ 730,000
<i>Business-type Activities:</i>				
Bond anticipation notes	\$ 2,000,000	\$ 3,000,000	\$ (2,000,000)	\$ 3,000,000

F. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the Town incurs various other long-term obligations relative to associated personnel costs. During the year ended June 30, 2009, the following reflects the activity in the long-term liability accounts:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
<i>Governmental Activities:</i>				
Compensated absences	\$ 73,007	\$ -	\$ -	\$ 73,007
Capital lease obligations	246,085	245,103	(102,648)	388,540
Landfill post closure care	404,500	-	(20,000)	384,500
Bond indebtedness	1,023,338	-	(90,511)	932,827
Total Governmental	<u>\$ 1,746,930</u>	<u>\$ 245,103</u>	<u>\$ (213,159)</u>	<u>\$ 1,778,874</u>
<i>Business-type Activities:</i>				
Bond indebtedness	\$ 14,899,200	\$ -	\$ (816,400)	\$ 14,082,800
Total Business-type	<u>\$ 14,899,200</u>	<u>\$ -</u>	<u>\$ (816,400)</u>	<u>\$ 14,082,800</u>

MWPAT Loan Subsidies – The Town has entered into loan agreements since December 1998 with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT in subsequent years on a periodic basis for principal in the amount of \$259,140 and interest costs of \$177,707 relative to governmental-type activities until maturity of these agreements. Thus net loan repayments are scheduled to be \$673,687.

Additionally, subsidies are anticipated for principal in the amount of \$103,196 and interest costs of \$77,681 relative to business-type activities until maturity of these agreements. Thus, associated net loan repayments are scheduled to be \$13,979,904. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements under the applicable governmental and business-type activities. In addition, a receivable has also been reflected for the principal amount of the subsidy under governmental and business type activities.

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin is \$75,127,754 based on an equalized valuation of \$1,543,751,075.

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2009 debt assessment to the Town, is approximated below:

<u>Related Entity (unaudited)</u>	<u>Principal Amount</u>	<u>Percent</u>	<u>Assessment Amount (debt portion)</u>
Triton Regional School District	\$ 26,900,000	35.80%	\$ 621,777

Advanced Refunding – On October 19, 2006 the Town issued water and sewer bonds in the amount of \$12,545,000 with a variable interest rate ranging from 3.5 – 5.0%. These bonds were used to advance refund water and sewer bonds in the amount of \$11,780,000 whose maturity date is August 1, 2019 and are callable in 2010 and 2012. The net proceeds of these bonds were used to purchase US government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called. The advance refunding met the requirements of an in-substance-defeasance and the term-bonds were removed from the Town’s financial statements. As a result of the advanced refunding, the Town was able to lower its annual debt service requirement with the economic difference between the present value of the debt payments of the old and new debt of \$765,000. This amount is being amortized over the remaining life of the old bonds using a straight line methodology.

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2009:

Description of Issue	Year of Issue	Maturity Date	Interest Rate	Original Amounts	Amounts Outstanding
<u>Governmental Activities - Bonded Debt:</u>					
<u>Inside the debt limit:</u>					
Fire Truck	2002	03/15/12	4.00 - 5.00%	\$ 250,000	\$ 75,000
Total inside the debt limit					75,000
<u>Outside the debt limit:</u>					
Landfill - MWPAT	2005	08/01/19	varies	1,110,081	857,827
Total outside the debt limit					857,827
Total Governmental Activities					\$ 932,827
<u>Business-type Activities - Bonded Debt:</u>					
Sewer Fund					
<u>Inside the debt limit:</u>					
Sewer	2000	08/01/19	4.10 - 6.75%	\$ 2,900,000	\$ 145,000
Sewer	2007	10/19/06	3.50 - 4.00%	1,456,300	1,437,000
Sewer - MWPAT	2005	08/01/18	varies	542,900	402,800
Total inside the debt limit - sewer					1,984,800
<u>Outside the debt limit:</u>					
Sewer	2000	08/01/19	4.10 - 6.75%	4,240,000	230,000
Sewer	2007	10/19/06	3.50 - 4.00%	906,200	898,000
Total outside the debt limit - sewer					1,128,000
Total Sewer Fund Debt					3,112,800
Water Fund					
<u>Outside the debt limit:</u>					
Water purchase	2002	03/15/31	4.00 - 5.30%	11,900,000	850,000
Water	2007	10/19/06	3.50 - 5.00%	10,182,500	10,120,000
Total outside the debt limit - water					10,970,000
Total Water Fund Debt					10,970,000
Total Business-type Activities					\$ 14,082,800
<u>Capital Lease Obligations - Governmental Activities:</u>					
Fire pumper truck	2007	08/02/12	5.36%	\$ 345,458	\$ 201,869
DPW loader	2008	08/25/13	4.25%	154,349	127,993
DPW truck	2009	06/15/12	5.17%	38,929	25,293
Police cruisers	2009	06/23/12	6.90%	51,825	33,385
Total Capital Lease Obligations					\$ 388,540

Future Debt Payoff - Payments on long-term debt obligation due in future years consist of the following:

Bonded Debt (Governmental Activities)

Year Ending June 30	Principal			Interest		
	Balance	Subsidy	Net	Balance	Subsidy	Net
2010	\$ 92,183	\$ (20,093)	\$ 72,090	\$ 48,474	\$ (30,404)	\$ 18,070
2011	96,116	(23,586)	72,530	38,008	(22,232)	15,776
2012	96,116	(24,009)	72,107	35,750	(21,256)	14,494
2013	71,116	(22,408)	48,708	32,177	(21,735)	10,442
2014	75,299	(23,378)	51,921	29,387	(19,433)	9,954
2015 - 2019	414,147	(119,351)	294,796	75,638	(60,231)	15,407
2020 - 2024	87,850	(26,315)	61,535	2,416	(2,416)	-
Total	\$ 932,827	\$ (259,140)	\$ 673,687	\$ 261,850	\$ (177,707)	\$ 84,143

Bonded Debt (Business-Type Activities)

Year Ending June 30	Principal			Interest		
	Balance	Subsidy	Net	Balance	Subsidy	Net
2010	\$ 732,300	\$ (11,164)	\$ 721,136	\$ 597,542	\$ (10,501)	\$ 587,041
2011	688,400	(10,767)	677,633	566,332	(10,642)	555,690
2012	694,600	(12,075)	682,525	533,484	(7,391)	526,093
2013	701,100	-	701,100	517,819	(19,886)	497,933
2014	721,200	(11,194)	710,006	469,930	(7,499)	462,431
2015 - 2019	3,200,200	(57,996)	3,142,204	1,944,765	(21,762)	1,923,003
2020 - 2024	2,690,000	-	2,690,000	1,319,985	-	1,319,985
2025 - 2029	3,185,000	-	3,185,000	661,260	-	661,260
2030 - 2031	1,470,000	-	1,470,000	63,114	-	63,114
Total	\$ 14,082,800	\$ (103,196)	\$ 13,979,604	\$ 6,674,231	\$ (77,681)	\$ 6,596,550

Capital lease obligations (Governmental Activities)

Year Ending June 30	Minimum Lease		
	Principal	Interest	Obligation
2010	\$ 104,376	\$ 19,305	\$ 123,681
2011	109,894	13,785	123,679
2012	83,637	7,968	91,605
2013	87,792	3,813	91,605
2014	2,841	10	2,851
Total	\$ 388,540	\$ 44,881	\$ 433,421

Authorized and Unissued Debt - At June 30, 2009, the Town had authorized and unissued debt as follows:

Project	Amount
Town Pier	\$ 100,000
Water	4,600,000
Sewer	3,100,000
Total authorized and unissued	<u>\$ 7,800,000</u>

IV. Other Information

A. Retirement System

Plan Description - The Town contributes to the Essex Regional Retirement System (EERS), a multiple-employer defined benefit pension plan established under Chapter 32 of the Commonwealth of Massachusetts General Laws (MGL) and is administered by the Essex Regional Retirement Board (EERB).

The ERS provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the ERB and are borne by the ERS. The ERS issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC) that includes financial statements and required supplementary information. The report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Danvers, Massachusetts 01923.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the ERS for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the ERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$643,557; \$663,980; and \$546,184; respectively, which equaled its required contribution for each year. Schedules of funding progress and contribution funding are included as required supplementary information.

- B. Risk Financing** - The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation. The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town's experience history. All insurance is carried through conventional, commercial carriers.

C. Other Post Employment Benefits (OPEB)

Plan Description - In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 58 active employees and 68 retired employees for a total of 118.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Town. Retirees also contribute 50% towards life insurance premiums; \$5,000 face value. The Town pays the remainder. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost is calculated based on the annual required contribution "ARC" of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

OPEB obligation at beginning of year	\$ -
Service cost with interest	186,857
Amortization of actuarial accrued liability (AAL)	242,984
Contributions made	<u>(204,131)</u>
OPEB obligation at end of year	<u>\$ 225,710</u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2009*	\$ 429,841**	47.5%	\$ 225,710

* Transition year

** Reflected as Fringe Benefits in the Statement of Activities

Funding Status and Funding Progress - The funded status of the Plan at June 30, 2009 for the most recent actuarial valuation performed as of June 30, 2009, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 6,958,284	\$ 6,958,284	0.00%	\$ 3,700,000	188%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

Methods and Assumptions - projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

Valuation date:	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay
Remaining amortization period:	30 years as of June 30, 2009
Interest discount rate:	5%
Healthcare/Medical cost trend rate:	9% grading down to 5% in year 2015 and thereafter

- D. Commitments and Contingencies** – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2009.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.

The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The amount of penalties, if any, cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

The Town is contractually obligated for sewer improvements in the amount of \$3,876,041 of which \$3,834,189 had been completed as of June 30, 2009.

- E. Landfill Closure and Post-Closure Care Costs** – The Town's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principals, the estimated remaining cost of monitoring; \$384,500 has been recorded as a liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations. Debt related to closure activities was issued in the form of bonds and has been presented as bonded debt in the Governmental Funds.

V. Implementation of New GASB Pronouncements

In June 2007, the GASB issued GASB No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51). The objective of GASB 51 is to establish accounting and financial reporting requirements for intangible assets such as easements, water rights, timber rights, patents, trademarks and computer software, and reduce inconsistencies in current reporting practices, thereby enhancing the comparability of the accounting and reporting of such assets among state and local governments. GASB 51 is effective for periods beginning after June 15, 2009. The Town will adopt GASB 51 for fiscal year ending June 30, 2010.

In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Town will adopt GASB 53 for fiscal year ending June 30, 2010.

In March 2009 the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to alter the focus to bring greater clarity and consistency to fund balance reporting and terminology used to report fund balance in governmental funds. GASB 54 is effective for periods beginning after June 15, 2010. The Town will adopt GASB 54 for fiscal year ended June 30, 2011.

The Town is currently evaluating whether the adoptions of these GASB pronouncements will have a material impact on its financial statements.

TOWN OF SALISBURY, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

SCHEDULES OF FUNDING PROGRESS

Pension System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
01/01/08	\$ 301,420,965	\$ 445,171,554	\$ 143,750,589	67.7%	\$ 111,726,856	128.7%
01/01/05	\$ 261,327,047	\$ 376,034,621	\$ 114,707,574	69.5%	\$ 98,641,094	116.3%
01/01/03	\$ 229,852,971	\$ 333,396,222	\$ 103,543,251	68.9%	\$ 93,404,002	110.9%

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
6/30/2009	\$ -	\$ 6,958,284	\$ 6,958,284	0.0%	\$ 3,700,000	188.1%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended December 31,	Essex Regional Retirement System			Town	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Town's Percentage of System Wide Actual Contributions
2008	\$ 16,652,520	\$ 16,652,520	100.0%	\$ 643,557	3.9%
2007	\$ 15,788,864	\$ 15,788,864	100.0%	\$ 663,980	4.2%
2006	\$ 16,622,274	\$ 16,622,274	100.0%	\$ 546,184	3.3%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2009	\$ 429,841	\$ 204,131	47.5%

See accompanying independent auditor's report.

TOWN OF SALISBURY, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Encumbrances	Actual	Variance
	Original	Final	Budgetary		Budgetary	Favorable
	Budget	Budget	Amounts		Adjusted	(Unfavorable)
REVENUES						
Real estate and personal property taxes, net	\$ 14,274,402	\$ 14,030,502	\$ 14,357,133	\$ -	\$ 14,357,133	\$ 326,631
Intergovernmental	1,194,038	1,117,407	1,164,720	-	1,164,720	47,313
Motor vehicle and other excises	1,035,000	1,035,000	962,818	-	962,818	(72,182)
Departmental and other revenue	470,440	470,440	464,921	-	464,921	(5,519)
License and permits	277,000	277,000	270,867	-	270,867	(6,133)
Penalties and interest on taxes	100,000	100,000	127,303	-	127,303	27,303
Fines and forfeitures	65,000	65,000	72,019	-	72,019	7,019
Investment income	75,000	75,000	33,435	-	33,435	(41,565)
Total Revenues	17,490,880	17,170,349	17,453,216	-	17,453,216	282,867
EXPENDITURES						
General government	1,619,789	1,620,756	1,563,248	36,846	1,600,094	20,662
Public safety	3,367,768	3,315,989	3,255,781	27,500	3,283,281	32,708
Education	9,711,466	9,709,324	9,658,939	-	9,658,939	50,385
Public works	981,704	1,056,431	1,046,470	-	1,046,470	9,961
Health and human services	258,051	252,984	315,860	-	315,860	(62,876)
Culture and recreation	202,889	196,139	170,356	24,363	194,719	1,420
Pension and fringe benefits	1,659,918	1,856,307	1,862,194	-	1,862,194	(5,887)
State and county tax assessments	168,317	168,317	166,937	-	166,937	1,380
Debt service	174,610	141,845	141,845	-	141,845	-
Total Expenditures	18,144,512	18,318,092	18,181,630	88,709	18,270,339	47,753
OTHER FINANCING SOURCES (USES)						
Transfers in	361,721	665,471	687,335	-	687,335	21,864
Transfers out	-	-	-	-	-	-
Total Other Financing Sources (Uses)	361,721	665,471	687,335	-	687,335	21,864
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	(291,911)	(482,272)	(41,079)	\$ (88,709)	\$ (129,788)	\$ 352,484
BUDGETARY FUND BALANCES, JULY 1, 2008	1,050,414	1,050,414	1,050,414			
BUDGETARY FUND BALANCES, June 30, 2009	\$ 758,503	\$ 568,142	\$ 1,009,335			
Budgetary deficit funded from:						
Teacher's Deferral	\$ 33,590	\$ 33,590				
Overlay	-	206,000				
Prior year encumbrances	257,821	257,821				
Miscellaneous other	500	(15,139)				
	\$ 291,911	\$ 482,272				

The notes to the financial statements are an integral part of this statement.

TOWN OF SALISBURY, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009**

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund and Enterprise Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town's annual meeting in May. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

The Town made approximately \$173,580 of supplemental budgetary changes during the year, which were all funded through an appropriation of free cash and Stabilization fund.

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget. Primary differences include the recognition of grossing up revenues and expenditures to reflect on-behalf teacher's retirement paid by the Commonwealth and debt subsidies paid by the Massachusetts Water Pollution Abatement Trust. A reconciliation is provided below.

Revenues on a GAAP basis	\$ 17,531,412
On-behalf teacher's receipts	(78,196)
Revenues on a Budgetary basis	<u>\$ 17,453,216</u>
Expenditures on a GAAP basis	\$ 18,259,826
On-behalf teacher's expenditures	(78,196)
Expenditures on a Budgetary basis	<u>\$ 18,181,630</u>