

TOWN OF SALISBURY, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2010

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, (the "Town") as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 the 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 Town as of June 30, 2010, 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 a report dated [Date Pending Approval], on our consideration of the Town'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 to 10, the funding and contribution progress for pension benefits and other post employment benefits on page 38 and budgetary comparison information on pages 39-40, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
September 24, 2010

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, 2010. 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 11 – 40. 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 \$37.9 million (*total net assets*). Of this amount, approximately \$7.4 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 \$1.8 million or approximately 5.0% year to year. The increase was primarily the result of the receipt of approximately \$1.8 million in intergovernmental grants for construction of water infrastructure in the Business-type funds. The net assets of the Governmental Type funds remained relatively unchanged.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$2.4 million. This represents an increase of approximately \$0.6 million over the previous year. This was mainly a result of the permanent financing of capital projects. 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 14 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 \$0.7 million, or approximately 3.8% of total general fund expenditures.
- The Town's total long-term debt decreased by approximately \$0.2 million. This was due to scheduled pay downs of debt totaling \$0.8 million offset by a permanent financing of \$0.6 million.

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 11-12), 2) fund financial statements (pages 13-16), and 3) notes to the financial statements (pages 20-37). This report also contains other supplementary information (pages 38-40) 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 11-12 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 14 and 16 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 39 of this report.

The basic governmental fund financial statements can be found on pages 13-16 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 17-19 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 of pages 20-37 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 \$37.9 million (see Exhibit I on page 9) at the close of the most recent fiscal year.

By far the largest portion (approximately 78.8%) 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 1.6%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 19.6%), 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 \$1.8 million or approximately 5.0% year to year. (See Exhibit II on page 10) The increase was primarily the result of the receipt of approximately \$1.8 million in intergovernmental grants for construction of water infrastructure in the Business-type funds. The net assets of the Governmental Type funds remained relatively unchanged.

Major revenue sources consist of revenue from Property Taxes, which were 76.4% of total revenues, up from 73.7% in the prior year. No other revenue sources exceed 10% of total revenues. Major expenditures were for Public Safety, 24.9% of total expenditures down from 25.5% in the prior year and Education, 50.0% of total expenditures up from 47.8% in the prior year. No other expenditures exceed 10% of total expenditures.

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 of approximately \$2.4 million. This represents an increase of approximately \$0.6 million over the previous year. This was mainly a result of the permanent financing of capital projects. 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 \$0.7 million, while total fund balance reached approximately \$0.9 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 3.8% of total general fund expenditures, while total fund balance represents approximately 5.0% of that same amount.

The stabilization fund has a total fund balance of approximately \$0.3 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 2010 activity represented amounts transferred from the general fund.

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 \$2.7 million; and net assets of the sewer fund amounted to approximately \$25.8 million.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately \$0.3 million. The schedule of budgetary information is provided on page 39.

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, 2010, amounts to approximately \$45.8 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 \$1.0 million net of depreciation. During the year, the Town intensified its capital improvement activities regarding construction of water infrastructure.

Capital Assets (000's)			
	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Land	\$ 2,818	\$ 1,753	\$ 4,571
Buildings and improvements	2,893	-	2,893
Infrastructure	5,926	53,638	59,564
Machinery and equipment	1,120	345	1,465
Vehicles	2,222	175	2,397
	<u>14,979</u>	<u>55,911</u>	<u>70,890</u>
Less: Accumulated depreciation	(7,905)	(17,205)	(25,110)
	<u></u>	<u></u>	<u></u>
Total capital assets	<u>\$ 7,074</u>	<u>\$ 38,706</u>	<u>\$ 45,780</u>

Additional information on the Town capital assets can be found in note III. D on pages 28-29 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$14.8 million. The entire amount comprises debt backed by the full faith and credit of the government. Of this amount approximately \$1.5 million represents general obligation bonds of governmental activities and approximately \$13.3 million represents general obligation bonds of business-type activities.

The Town's total long-term debt was decreased by approximately \$0.2 million due to the issuance of approximately 0.6 million of bonds offset by scheduled pay downs of debt.

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 \$0.2 million as of the year ended June 30, 2010 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 \$76.7 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 30-33 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 begun to stabilize over the past 12 months. They still however remain near record highs.
- The Town relies heavily on its commercial and industrial tax base (approximately 17.1% of total taxes). Residential taxes account for approximately 81.1% 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 2010, 2009, 2008, 2007 and 2006 were 1.4%, 3.0%, 2.8%, 6.6%, and 6.1% respectively, and have added approximately \$2.2 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 has stabilized from the downward trend experienced in 2005 to 2009. Housing prices still remain approximately 20% lower than their 2005 peaks.
- The Town expects to set its tax rate for 2011 in December 2010.

The above items were considered when the Town developed its budget for fiscal year 2011.

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>	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 5,549	\$ 5,323	\$ 6,845	\$ 6,877	\$ 12,394	\$ 12,200
Capital assets, net	7,075	7,337	38,705	37,398	45,780	44,735
Total assets	12,624	12,660	45,550	44,275	58,174	56,935
<u>Liabilities</u>						
Long term liabilities	2,394	1,526	15,627	13,350	18,021	14,876
Other liabilities	819	1,673	1,400	4,251	2,219	5,924
Total liabilities	3,213	3,199	17,027	17,601	20,240	20,800
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,890	5,890	23,985	20,904	29,875	26,794
Restricted	365	236	250	3,693	615	3,929
Unrestricted	3,156	3,335	4,288	2,077	7,444	5,412
Net Assets	<u>\$ 9,411</u>	<u>\$ 9,461</u>	<u>\$ 28,523</u>	<u>\$ 26,674</u>	<u>\$ 37,934</u>	<u>\$ 36,135</u>

Government-Wide Financial Analysis
Exhibit II

Changes in Net Assets						
	Governmental activities		Business activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 1,319	\$ 1,254	\$ 3,906	\$ 3,655	\$ 5,224	\$ 4,909
Operating grants and contributions	1,353	1,771	-	245	1,353	2,016
Capital grants and contributions	60	303	2,004	1,525	2,064	1,828
General revenues:						
Property taxes	14,806	14,375	-	-	14,806	14,375
Intergovernmental	824	666	-	-	824	666
Other	1,022	1,127	44	61	1,066	1,188
Total revenues	19,384	19,497	5,953	5,485	25,337	24,982
Expenditures						
General government	1,916	2,193	-	-	1,916	2,193
Public safety	4,934	5,176	-	-	4,934	5,176
Education	9,925	9,717	-	-	9,925	9,717
Public works	1,422	1,635	-	-	1,422	1,635
Human services	474	415	-	-	474	415
Culture and recreation	284	286	-	-	284	286
Debt service	53	65	720	641	773	707
Community development	837	775	-	-	837	775
Water	-	-	1,490	1,538	1,490	1,538
Sewer	-	-	1,485	1,429	1,485	1,429
Total expenses	19,843	20,262	3,695	3,608	23,538	23,870
Excess (deficiency) of revenues over expenditures	(459)	(765)	2,258	1,877	1,799	1,112
Transfers	409	362	(409)	(362)	-	-
Increase in net assets	(50)	(403)	1,849	1,516	1,799	1,112
Net assets, beginning of year, as restated	9,461	9,865	26,674	25,158	36,135	35,023
Net assets, end of year	\$ 9,411	\$ 9,461	\$ 28,523	\$ 26,674	\$ 37,934	\$ 36,135

TOWN OF SALISBURY, MASSACHUSETTS

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 2,487,312	\$ 3,938,476	\$ 6,425,788
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	443,011	-	443,011
Excise Taxes	146,319	-	146,319
User charges	-	685,086	685,086
Betterments	-	7,945	7,945
Intergovernmental	578,460	52,275	630,735
Bond defeasance - current portion	-	126,000	126,000
Total Current Assets	3,655,102	4,809,782	8,464,884
NONCURRENT:			
Restricted:			
Cash	364,647	-	364,647
Receivables:			
Tax liens and foreclosures	1,314,507	145,037	1,459,544
Betterments	-	1,719,483	1,719,483
Intergovernmental	215,461	81,264	296,725
Bond defeasance - long term portion	-	89,250	89,250
Land	2,818,550	1,753,000	4,571,550
Depreciable Capital Assets, net of accumulated depreciation	4,256,240	36,952,312	41,208,552
TOTAL ASSETS	12,624,507	45,550,128	58,174,635
LIABILITIES			
CURRENT:			
Warrants and accounts payable	182,954	412,864	595,818
Accrued payroll	182,993	12,483	195,476
Deposits	73,353	-	73,353
Interest expense	19,972	271,259	291,231
Other liabilities	47,718	-	47,718
Bond anticipation note payable	49,000	15,000	64,000
Current portion of debt	96,116	688,400	784,516
Current portion of capital lease obligations	109,894	-	109,894
Current portion of compensated absences	36,504	-	36,504
Current portion of post-monitoring landfill costs	20,000	-	20,000
Total Current Liabilities	818,504	1,400,006	2,218,510
NONCURRENT:			
Other post-employment benefits	454,883	-	454,883
Long-term portion of bond and note indebtedness	1,384,528	15,627,100	17,011,628
Long-term of capital lease obligations	174,270	-	174,270
Long-term portion of compensated absences	36,504	-	36,504
Long-term portion of post-monitoring landfill costs	344,500	-	344,500
TOTAL LIABILITIES	3,213,189	17,027,106	20,240,295
NET ASSETS			
Invested in capital assets, net of related debt	5,890,453	23,985,164	29,875,617
Restricted for			
Perpetual funds	364,647	-	364,647
Debt service	-	250,000	250,000
Unrestricted	3,156,218	4,287,858	7,444,076
NET ASSETS	\$ 9,411,318	\$ 28,523,022	\$ 37,934,340

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, 2010

	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	\$ 1,516,200	\$ 399,904	\$ 377,123	\$ 5,393	\$ -	\$ (1,533,588)		\$ (1,533,588)
Public safety	3,708,757	1,224,748	702,225	213,427	-	(4,017,853)		(4,017,853)
Education	9,861,451	63,107	18,300	75,610	-	(9,830,648)		(9,830,648)
Public works	1,212,409	209,628	4,000	19,031	35,619	(1,363,387)		(1,363,387)
Health and human services	375,181	98,433	172,426	126,091	-	(175,097)		(175,097)
Culture and recreation	234,738	48,904	487	10,886	-	(272,269)		(272,269)
Pension and fringe benefits	1,954,546	(1,954,546)	-	-	-	-		-
State and county charges	182,841	(182,841)	-	-	-	(28,521)		(28,521)
Debt service	52,904	-	-	-	24,383	110,578		110,578
Community development	743,963	92,663	44,080	903,124	-			
Total Governmental Activities	19,842,990	\$ -	1,318,641	1,353,562	60,002	(17,110,785)		(17,110,785)
<u>Business-Type Activities:</u>								
Water service	2,091,086		2,138,894	-	1,993,170		2,040,978	2,040,978
Sewer service	1,604,826		1,766,836	-	10,501		172,511	172,511
Total Business-Type Activities	3,695,912		3,905,730	-	2,003,671		2,213,489	2,213,489
Total Primary Government	\$ 23,538,902		\$ 5,224,371	\$ 1,353,562	\$ 2,063,673	(17,110,785)	2,213,489	(14,897,296)
<u>General Revenues:</u>								
Real and personal property taxes						14,806,140	-	14,806,140
Motor vehicle and other excise						914,068	-	914,068
Penalties and interest on taxes						83,657	-	83,657
Intergovernmental						824,151	-	824,151
Investment income						23,985	43,845	67,830
Transfers (net)						408,594	(408,594)	-
Total general revenues and transfers						17,060,595	(364,749)	16,695,846
Change in Net Assets						(50,190)	1,848,740	1,798,550
<u>Net Assets:</u>								
Beginning of year, as restated						9,461,508	26,674,282	36,135,790
End of year						\$ 9,411,318	\$ 28,523,022	\$ 37,934,340

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

TOWN OF SALISBURY, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 1,244,852	\$ 335,924	\$ 906,536	\$ 2,487,312
Receivables, net of allowance for uncollectibles				
Real estate and personal property taxes	443,011	-	-	443,011
Excise Taxes	146,319	-	-	146,319
Tax liens and foreclosures	1,314,507	-	-	1,314,507
Due from Commonwealth	288,083	-	496,334	784,417
Cash - restricted	-	-	364,647	364,647
Total Assets	\$ 3,436,772	\$ 335,924	\$ 1,767,517	\$ 5,540,213
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants and accounts payable	\$ 90,558	\$ -	\$ 92,396	\$ 182,954
Accrued payroll	187,398	-	4,387	191,785
Deposits	73,353	-	-	73,353
Other liabilities	38,926	-	-	38,926
Bond anticipation note payable	-	-	49,000	49,000
Deferred revenues	2,142,885	-	496,334	2,639,219
Total Liabilities	2,533,120	-	642,117	3,175,237
FUND BALANCES:				
Reserved for:				
Encumbrances	217,618	-	-	217,618
Stabilization	-	335,924	-	335,924
Unreserved:				
Undesignated, reported in:				
General fund	686,034	-	-	686,034
Capital projects funds	-	-	(104,630)	(104,630)
Special revenue funds	-	-	865,383	865,383
Permanent funds	-	-	364,647	364,647
Total Fund Balances	903,652	335,924	1,125,400	2,364,976
Total Liabilities and Fund Balances	\$ 3,436,772	\$ 335,924	\$ 1,767,517	\$ 5,540,213

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, 2010**

Total Governmental Fund Balances	\$ 2,364,976
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,074,790
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	2,639,219
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(10,468)
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	(1,480,644)
Capital lease obligations	(284,164)
Compensated absences	(73,008)
Other post-employment benefits	(454,883)
Post-monitoring landfill costs	<u>(364,500)</u>
Net Assets of Governmental Activities	<u><u>\$ 9,411,318</u></u>

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, 2010

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes, net	\$ 14,723,616	\$ -	\$ -	\$ 14,723,616
Intergovernmental	1,067,958	-	801,135	1,869,093
Motor vehicle and other excises	916,578	-	-	916,578
Departmental and other revenue	548,187	-	610,748	1,158,935
Licenses and permits	225,199	-	-	225,199
Penalties and interest on taxes	83,657	-	-	83,657
Fines and forfeits	64,835	-	-	64,835
Investment income	11,331	3,580	9,074	23,985
Contributions and donations	-	-	17,956	17,956
Total Revenues	17,641,361	3,580	1,438,913	19,083,854
OTHER FINANCING SOURCES				
Proceeds from debt	-	-	640,000	640,000
Transfers in	430,819	207,100	17,000	654,919
Total Other Financing Sources	430,819	207,100	657,000	1,294,919
Total Revenues and Other Financing Sources	18,072,180	210,680	2,095,913	20,378,773
EXPENDITURES				
General government	1,447,126	-	29,445	1,476,571
Public safety	3,226,497	-	487,365	3,713,862
Education	9,861,451	-	-	9,861,451
Public works	971,281	-	174,367	1,145,648
Health and human services	336,520	-	38,661	375,181
Culture and recreation	169,738	-	28,271	198,009
Pensions and fringe benefits	1,725,373	-	-	1,725,373
State and county tax assessments	182,841	-	-	182,841
Debt service	157,036	-	-	157,036
Community Development	-	-	743,963	743,963
Total Expenditures	18,077,863	-	1,502,072	19,579,935
OTHER FINANCING USES				
Transfers out	100,000	-	146,325	246,325
Total Expenditures and Other Financing Uses	18,177,863	-	1,648,397	19,826,260
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	(105,683)	210,680	447,516	552,513
FUND BALANCES, July 1, 2009	1,009,335	125,244	677,884	1,812,463
FUND BALANCES, June 30, 2010	<u>\$ 903,652</u>	<u>\$ 335,924</u>	<u>\$ 1,125,400</u>	<u>\$ 2,364,976</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, 2010**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 552,513**

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 \$72,134 and depreciation expense totaled \$334,524. The net amount is reflected here as a reconciling item. (262,390)

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 \$92,183 and proceeds were \$640,000. (547,817)

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 principal payments were \$104,376. 104,376

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. 306,373

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. 5,928

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:

Other post-employment benefits	(229,173)
Post-monitoring landfill costs	<u>20,000</u>

Change in Net Assets of Governmental Activities **\$ (50,190)**

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, 2010**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 1,804,348	\$ 2,134,128	\$ 3,938,476
Receivables:			
User charges	265,740	419,346	685,086
Betterments	-	7,945	7,945
Due from Commonwealth	41,508	10,767	52,275
Loss from bond defeasance	126,000	-	126,000
Total Current Assets	<u>2,237,596</u>	<u>2,572,186</u>	<u>4,809,782</u>
NONCURRENT:			
Receivables:			
Tax liens	9,281	135,756	145,037
Betterments	-	1,719,483	1,719,483
Due from Commonwealth	-	81,264	81,264
Loss from bond defeasance	89,250	-	89,250
Land	369,002	1,383,998	1,753,000
Capital assets, net of accumulated depreciation	10,963,428	25,988,884	36,952,312
TOTAL ASSETS	<u>13,668,557</u>	<u>31,881,571</u>	<u>45,550,128</u>
LIABILITIES			
CURRENT:			
Warrants and accounts payable	70,682	342,182	412,864
Accrued payroll	-	12,483	12,483
Accrued interest	189,989	81,270	271,259
Bond anticipation notes payable	-	15,000	15,000
Current portion of debt	320,000	368,400	688,400
Total Current Liabilities	<u>580,671</u>	<u>819,335</u>	<u>1,400,006</u>
NONCURRENT:			
Long term portion of debt	10,345,000	5,282,100	15,627,100
TOTAL LIABILITIES	<u>10,925,671</u>	<u>6,101,435</u>	<u>17,027,106</u>
NET ASSETS			
Invested in capital assets, net of related debt	708,938	23,276,226	23,985,164
Reserved for debt service	-	250,000	250,000
Unrestricted	2,033,948	2,253,910	4,287,858
NET ASSETS	<u><u>\$ 2,742,886</u></u>	<u><u>\$ 25,780,136</u></u>	<u><u>\$ 28,523,022</u></u>

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, 2010**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for services	\$ 2,138,894	\$ 1,666,525	\$ 3,805,419
Total Operating Revenues	2,138,894	1,666,525	3,805,419
OPERATING EXPENSES			
Operating costs	1,175,043	756,327	1,931,370
Depreciation	315,686	728,934	1,044,620
Total Operating Expenses	1,490,729	1,485,261	2,975,990
OPERATING INCOME	648,165	181,264	829,429
NONOPERATING REVENUES (EXPENSES):			
Intergovernmental	1,993,170	10,501	2,003,671
Betterments	-	100,311	100,311
Interest income	9,916	33,929	43,845
Interest expense	(600,357)	(119,565)	(719,922)
Transfers in	79,363	-	79,363
Transfers out	(119,016)	(368,941)	(487,957)
Total Nonoperating Revenues (Expenses), net	1,363,076	(343,765)	1,019,311
CHANGE IN NET ASSETS	2,011,241	(162,501)	1,848,740
NET ASSETS AT BEGINNING OF YEAR, as restated	731,645	25,942,637	26,674,282
NET ASSETS AT END OF YEAR	<u>\$ 2,742,886</u>	<u>\$ 25,780,136</u>	<u>\$ 28,523,022</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, 2010**

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from users	\$ 2,161,901	\$ 1,634,111	\$ 3,796,012
Payments to vendors and employees	(1,202,103)	(529,356)	(1,731,459)
Net Cash Provided by (Used for) Operating Activities	959,798	1,104,755	2,064,553
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Receipts from betterments	-	397,122	397,122
Transfers in	79,363	-	79,363
Transfers out	(119,016)	(368,941)	(487,957)
Net Cash Used for Noncapital Related Financing Activities	(39,653)	28,181	(11,472)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,074,186)	(277,468)	(2,351,654)
Government subsidy	1,951,662	163,736	2,115,398
Interest income	9,916	33,929	43,845
Payment of bond anticipation notes	-	(20,000)	(20,000)
Principal payments on bonds and notes	(305,000)	(427,300)	(732,300)
Interest expense	(478,805)	(134,442)	(613,247)
Net Cash Used for Capital and Related Financing Activities	(896,413)	(661,545)	(1,557,958)
CASH FLOWS FROM INVESTING ACTIVITIES:			
NET CHANGE IN CASH AND EQUIVALENTS	23,732	471,391	495,123
CASH AND EQUIVALENTS:			
July 1, 2009	1,780,616	1,662,737	3,443,353
June 30, 2010	\$ 1,804,348	\$ 2,134,128	\$ 3,938,476
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 648,165	\$ 181,264	\$ 829,429
Depreciation	315,686	728,934	1,044,620
Changes in assets and liabilities:			
Receivables (net)	23,007	(32,414)	(9,407)
Accounts payable	(27,060)	214,488	187,428
Accrued payroll	-	12,483	12,483
Net Cash Provided From Operating Activities	\$ 959,798	\$ 1,104,755	\$ 2,064,553
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Amortization of loss from bond defeasance	\$ 126,000	\$ 2,500	\$ 128,500

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, 2010

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 in 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. 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 *Nonmajor Governmental Funds* consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The Permanent Funds are used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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 – Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities and 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.

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

Reclassifications – Certain reclassifications have been made to the 2009 amounts to conform to the 2010 presentation.

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 2010, expenditures exceeded appropriations for certain special revenue accounts. The over-expenditures are expected to be funded through future intergovernmental revenues.
- C. Fund Balance Deficits** – The Town's Capital Project Fund has a legal deficit fund balance of \$104,630. 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, 2010, the carrying amount of the Town's deposits was \$6,790,435 and the bank balance was \$6,979,465. Of the Town's bank balance, \$2,477,106 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.

B. Receivables

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

Property taxes	\$ 717,448
Tax liens	1,314,507
Excise	264,229
Intergovernmental	<u>784,417</u>
Gross receivables	3,080,601
Allowance for uncollectible accounts	<u>(392,347)</u>
Net receivables	<u>\$ 2,688,254</u>

Receivables of enterprise funds consisted of the following:

User charges:	
Water	\$ 265,740
Sewer	419,346
Tax titles and liens:	
Water	9,281
Sewer	135,756
Betterments:	
Sewer	1,727,428
Intergovernmental:	
Water	41,508
Sewer	<u>92,031</u>
Net receivables	<u>\$ 2,691,090</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 \$2,639,219.

MWPAT Loan Subsidies – The Town has entered into numerous loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$331,079 and interest in the amount of \$214,481 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements; therefore, the principal amounts of \$239,047 and \$92,032 are reported within the General Fund and Sewer Enterprise Funds, respectively.

Unapportioned Betterments – The Town reflects receivables of \$1,719,483 in its Sewer Enterprise Fund that represents amounts anticipated to be billed in the future for sewer betterments that the Town has funded through bond issuances.

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

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 430,819	\$ 100,000
Stabilization	207,100	-
Non - major Governmental	17,000	146,325
Water: Business-Type	79,367	119,016
Sewer: Business-Type	<u>-</u>	<u>368,941</u>
Totals	<u>\$ 734,282</u>	<u>\$ 734,282</u>

The majority of the intergovernmental fund transfers were to fund operating activities of the General Fund and to accumulate funds in the Stabilization Major Governmental Fund for future expenditures.

D. Capital Assets

Capital asset activity for the year ended June 30, 2010 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	<u>2,818,550</u>	<u>-</u>	<u>-</u>	<u>2,818,550</u>
Capital assets being depreciated:				
Buildings and improvements	2,893,177	-	-	2,893,177
Infrastructure	5,925,702	-	-	5,925,702
Machinery and equipment	1,105,415	14,760	-	1,120,175
Vehicles	2,164,621	57,374	-	2,221,995
Total capital assets being depreciated	<u>12,088,915</u>	<u>72,134</u>	<u>-</u>	<u>12,161,049</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,388,495)	(51,205)	-	(1,439,700)
Infrastructure	(4,032,361)	(78,879)	-	(4,111,240)
Machinery and equipment	(550,874)	(85,911)	-	(636,785)
Vehicles	(1,598,555)	(118,529)	-	(1,717,084)
Total accumulated depreciation	<u>(7,570,285)</u>	<u>(334,524)</u>	<u>-</u>	<u>(7,904,809)</u>
Total capital assets being depreciated, net	<u>4,518,630</u>	<u>(262,390)</u>	<u>-</u>	<u>4,256,240</u>
Governmental activities capital assets, net	<u>\$ 7,337,180</u>	<u>\$ (262,390)</u>	<u>\$ -</u>	<u>\$ 7,074,790</u>
<u>Business Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,753,000	\$ -	\$ -	\$ 1,753,000
Construction in process	4,458,990	-	(4,458,990)	-
Total capital assets not being depreciated	<u>6,211,990</u>	<u>-</u>	<u>(4,458,990)</u>	<u>1,753,000</u>
Capital assets being depreciated:				
Infrastructure	46,828,511	6,809,118	-	53,637,629
Machinery and equipment	343,435	1,526	-	344,961
Vehicles	174,692	-	-	174,692
Total capital assets being depreciated	<u>47,346,638</u>	<u>6,810,644</u>	<u>-</u>	<u>54,157,282</u>
Less accumulated depreciation for:				
Infrastructure	(15,707,287)	(1,013,264)	-	(16,720,551)
Machinery and equipment	(292,248)	(24,417)	-	(316,665)
Vehicles	(160,815)	(6,939)	-	(167,754)
Total accumulated depreciation	<u>(16,160,350)</u>	<u>(1,044,620)</u>	<u>-</u>	<u>(17,204,970)</u>
Total capital assets being depreciated, net	<u>31,186,288</u>	<u>5,766,024</u>	<u>-</u>	<u>36,952,312</u>
Business activities capital assets, net	<u>\$ 37,398,278</u>	<u>\$ 5,766,024</u>	<u>\$ (4,458,990)</u>	<u>\$ 38,705,312</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-Type Activities - Water:</u></i>				
Capital assets not being depreciated:				
Land	\$ 369,002	\$ -	\$ -	\$ 369,002
Construction in Process	26,206	-	(26,206)	-
Total capital assets not being depreciated	395,208	-	(26,206)	369,002
Capital assets being depreciated:				
Infrastructure	11,239,358	2,100,392	-	13,339,750
Machinery and equipment	299,721	-	-	299,721
Total capital assets being depreciated	11,539,079	2,100,392	-	13,639,471
Less accumulated depreciation for:				
Infrastructure	(2,107,442)	(292,756)	-	(2,400,198)
Machinery and equipment	(252,915)	(22,930)	-	(275,845)
Total accumulated depreciation	(2,360,357)	(315,686)	-	(2,676,043)
Total capital assets being depreciated, net	9,178,722	1,784,706	-	10,963,428
Water activities capital assets, net	<u>\$ 9,573,930</u>	<u>\$ 1,784,706</u>	<u>\$ (26,206)</u>	<u>\$ 11,332,430</u>
<i><u>Business-Type Activities - Sewer:</u></i>				
Capital assets not being depreciated:				
Land	\$ 1,383,998	\$ -	\$ -	\$ 1,383,998
Construction in Process	4,432,784	-	(4,432,784)	-
Total capital assets not being depreciated	5,816,782	-	(4,432,784)	1,383,998
Capital assets being depreciated:				
Infrastructure	35,589,153	4,708,726	-	40,297,879
Machinery and equipment	43,714	1,526	-	45,240
Vehicles	174,692	-	-	174,692
Total capital assets being depreciated	35,807,559	4,710,252	-	40,517,811
Less accumulated depreciation for:				
Infrastructure	(13,599,845)	(720,508)	-	(14,320,353)
Machinery and equipment	(39,333)	(1,487)	-	(40,820)
Vehicles	(160,815)	(6,939)	-	(167,754)
Total accumulated depreciation	(13,799,993)	(728,934)	-	(14,528,927)
Total capital assets being depreciated, net	22,007,566	3,981,318	-	25,988,884
Sewer activities capital assets, net	<u>\$ 27,824,348</u>	<u>\$ 3,981,318</u>	<u>\$ (4,432,784)</u>	<u>\$ 27,372,882</u>
<i><u>Business-Type Activities - All:</u></i>				
Business-type activities capital assets, net	<u>\$ 37,398,278</u>	<u>\$ 5,766,024</u>	<u>\$ (4,458,990)</u>	<u>\$ 38,705,312</u>

For the year ended June 30, 2010, depreciation expense was charged to functions/programs as follows:

<i><u>Governmental Activities:</u></i>		<i><u>Business-Type Activities:</u></i>	
General government	\$ 44,473	Water	\$ 315,686
Public safety	122,994	Sewer	728,934
Public works	128,415	Total Business-Type Activities	<u>\$ 1,044,620</u>
Culture and recreation	38,642		
Total Governmental Activities	<u>\$ 334,524</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.

Type	Interest Rate	Maturity Date	July 1, 2009	Additions	Retirements	June 30, 2010
BAN	2.25%	Matured	\$ 730,000	\$ –	\$ (730,000)	\$ –
BAN	1.50%	07/23/10	–	689,000	(640,000)	49,000 *
Total governmental notes			730,000	689,000	(1,370,000)	49,000
BAN	2.25%	Matured	2,000,000	–	(2,000,000)	–
BAN	2.50%	Matured	1,000,000	–	(1,000,000)	–
BAN	1.50%	07/23/10	–	2,980,000	–	2,980,000 **
Total business-type notes			3,000,000	2,980,000	(3,000,000)	2,980,000
Total notes payable			\$ 3,730,000	\$ 3,669,000	\$ (4,370,000)	\$ 3,029,000

* \$640,000 of this BAN was bonded on July 15, 2010 and is presented as debt proceeds in the financial statements. The remaining amount was paid down with available funds.

** \$2,965,000 of this BAN was bonded on July 15, 2010 and is presented as long term portion of notes in the financial statement, with the remaining amount paid down with available funds.

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.

Bond and Note Debt Issued - The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2010:

Description of Issue	Maturity Date	Interest Rate	Amounts Outstanding
<i>Governmental Activities:</i>			
General Obligation Bonds	July 2027	3.0 - 5.0%	690,000
MWPAT Note	August 2019	3.7 - 4.5%	790,644
Total Governmental Activities			<u>\$ 1,480,644</u>
<i>Business-Type Activities - Water:</i>			
General Obligation Bond	March 2031	4.0 - 5.3%	\$ 580,000
General Obligation Refunding Bond	August 2030	3.5 - 5.0%	10,085,000
Total Water Debt			<u>10,665,000</u>
<i>Business-Type Activities - Sewer:</i>			
General Obligation Refunding Bonds	August 2019	3.5 - 4.0%	2,320,000
MWPAT Note	August 2018	2.6 - 4.4%	365,500
Total Sewer Debt			<u>2,685,500</u>
Total Business-Type Activities			<u>\$ 13,350,500</u>

Capital Lease Obligations - The following is a summary of outstanding capital lease obligations for the year ended June 30, 2010:

<i>Capital Lease Obligations - Governmental Activities:</i>			
Fire pumper truck	August 2012	5.36%	155,283
DPW truck	June 2012	5.17%	12,965
Police cruisers	June 2012	6.90%	17,249
DPW loader	August 2013	4.25%	98,667
Total Capital Lease Obligations			<u>\$ 284,164</u>

Long-Term Obligations Activity - The following reflects the activity in the long-term liability accounts for the year ended June 30, 2010:

	July 1, 2009	Additions	Reductions	June 30, 2010
<i>Governmental Activities:</i>				
Bond indebtedness	\$ 932,827	\$ 640,000	\$ (92,183)	\$ 1,480,644
Capital lease obligations	388,540	-	(104,376)	284,164
Landfill monitoring	384,500	-	(20,000)	364,500
Other post employment benefits	225,710	453,717	(224,544)	454,883
Compensated absences, net	73,008	-	-	73,008
Total Governmental Activities	<u>\$ 2,004,585</u>	<u>\$ 1,093,717</u>	<u>\$ (441,103)</u>	<u>\$ 2,657,199</u>
<i>Business-Type Activities:</i>				
Bond indebtedness:				
Water	\$ 10,970,000	\$ -	\$ (305,000)	\$ 10,665,000
Sewer	3,112,800	-	(427,300)	2,685,500 *
Total Business-Type Activities	<u>\$ 14,082,800</u>	<u>\$ -</u>	<u>\$ (732,300)</u>	<u>\$ 13,350,500</u>

*\$2,965,000 of short-term notes outstanding at June 30, 2010 were permanently financed on July 15, 2010 and is presented as long-term portion of debt in the financial statements, but not included in bonded debt above.

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
2011	\$ 96,116	\$ (23,586)	\$ 72,530	\$ 49,608	\$ (22,232)	\$ 27,376
2012	136,116	(24,009)	112,107	58,350	(21,256)	37,094
2013	111,116	(22,408)	88,708	53,577	(21,735)	31,842
2014	115,299	(23,378)	91,921	49,587	(19,433)	30,154
2015	119,483	(23,052)	96,431	42,829	(17,048)	25,781
2016 - 2020	622,514	(122,614)	499,900	129,425	(45,597)	83,828
2021 - 2025	200,000	-	200,000	36,000	-	36,000
2026 - 2030	80,000	-	80,000	3,200	-	3,200
Total	\$ 1,480,644	\$ (239,047)	\$ 1,241,597	\$ 422,576	\$ (147,301)	\$ 275,275

Bonded Debt (Business-Type Activities - Water)

Year Ending June 30	Principal			Interest		
	Balance	Subsidy	Net	Balance	Subsidy	Net
2011	\$ 320,000	\$ -	\$ 320,000	\$ 463,992	\$ -	\$ 463,992
2012	330,000	-	330,000	448,343	-	448,343
2013	355,000	-	355,000	425,792	-	425,792
2014	370,000	-	370,000	411,292	-	411,292
2015	385,000	-	385,000	396,192	-	396,192
2016 - 2020	2,155,000	-	2,155,000	1,733,762	-	1,733,762
2021 - 2025	2,685,000	-	2,685,000	1,190,947	-	1,190,947
2026 - 2030	3,315,000	-	3,315,000	523,283	-	523,283
2031	750,000	-	750,000	15,938	-	15,938
Total	\$ 10,665,000	\$ -	\$ 10,665,000	\$ 5,609,541	\$ -	\$ 5,609,541

Bonded Debt (Business-Type Activities - Sewer)

Year Ending June 30	Principal			Interest		
	Balance	Subsidy	Net	Balance	Subsidy	Net
2011	\$ 368,400	\$ (10,767)	\$ 357,633	\$ 102,340	\$ (10,642)	\$ 91,698
2012	364,600	(12,075)	352,525	85,141	(7,391)	77,750
2013	346,100	-	346,100	92,027	(19,886)	72,141
2014	351,200	(11,194)	340,006	58,638	(7,499)	51,139
2015	352,400	(10,925)	341,475	44,874	(7,201)	37,673
2016 - 2020	902,800	(47,071)	855,729	84,129	(14,561)	69,568
Total	\$ 2,685,500	\$ (92,032)	\$ 2,593,468	\$ 467,149	\$ (67,180)	\$ 399,969

Capital lease obligations (Governmental Activities)

Year Ending June 30	Minimum Lease		
	Principal	Interest	Obligation
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	\$ 284,164	\$ 25,576	\$ 309,740

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 as of June 30, 2010 was approximately \$77 million based on an equalized valuation of approximately \$1,574 million

Authorized and Unissued Debt – At June 30, 2010, the Town had authorized and unissued debt as follows:

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

MWPAT Loan Subsidies – As previously noted in footnote B, the Town has entered into loan agreements with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a annual basis for principal in the amount of \$331,079 until maturity; \$31,257 of principal subsidy was received in the current year.

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and the 2010 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%	\$ 769,277

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.

IV. Other Information

A. Retirement System

Plan Description - The Town contributes to the Essex Regional Retirement System (ERS), 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 (ERB).

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, 2010, 2009, and 2008 were \$689,851; \$643,557; and \$663,980; 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.

D. Massachusetts Teachers' Retirement System

Teachers who are employed by the Triton Regional School District for which the Town is responsible for retirement benefits participate in a contributory retirement system administered by the Massachusetts Teachers Retirement Board. Contributions to that system totaled \$75,610 for the fiscal year and were made entirely by the Commonwealth of Massachusetts, on behalf of the Town, which does not contribute directly to this system.

D. 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	\$ 225,710
Annual required contribution (ARC)	450,686
Interest on existing OPEB obligation	11,286
ARC adjustment	(8,255)
Contributions made	<u>(224,544)</u>
OPEB obligation at end of year	<u>\$ 454,883</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, 2010	\$ 453,841 **	49.5%	\$ 229,173
June 30, 2009*	\$ 429,841	47.5%	\$ 225,710

* Transition year

** The AOPEBC obligation was charged to the following functional programs General Government \$76,286; Public Safety \$284,384; Public Works \$48,675; Health and Human Services \$11,625; Culture and Recreation \$11,355; and Community Development \$21,516.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2010 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

- E. 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, 2010, 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, 2010.

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 water tank construction costs in the amount of \$3,068,908 of which \$564,061 had been completed as of June 30, 2010.

F. 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; \$364,500 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.

G. Subsequent Events – The Town did not have any other subsequent events through the date the financial statements were issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2010.

V. Implementation of New GASB Pronouncements

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 adoption of this GASB pronouncement will have a material impact on its financial statements.

VI. Restatement of Prior Year Balances

Government-Wide Financial Statements:

	<u>Business-type</u>
Prior year net assets as presented	\$ 26,324,560
Receivable accrual for unbilled usage	<u>349,722</u>
As restated	<u>\$ 26,674,282</u>

Fund Financial Statements:

	<u>Sewer Fund</u>
Prior year net assets as presented	\$25,592,915
Receivable accrual for unbilled usage	<u>349,722</u>
As restated	<u>\$25,942,637</u>

TOWN OF SALISBURY, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

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 (B / A)	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	Town's Percentage of System Wide Actual Contributions
2009	\$ 17,887,680	\$ 17,887,680	100.0%	\$ 689,851	3.9%
2008	\$ 16,652,520	\$ 16,652,520	100.0%	\$ 643,557	3.9%
2007	\$ 16,294,571	\$ 16,294,571	100.0%	\$ 663,980	4.1%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2010	\$ 450,686	\$ 224,544	49.8%
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, 2010

	Budgeted Amounts		Actual		Actual	Variance
	Original	Final	Budgetary	Encumbrances	Budgetary	Favorable
	Budget	Budget	Amounts		Adjusted	(Unfavorable)
REVENUES						
Real estate and personal property taxes, net	\$ 14,711,868	\$ 14,711,868	\$ 14,723,615	\$ -	\$ 14,723,615	\$ 11,747
Intergovernmental	913,027	913,027	992,349	-	992,349	79,322
Motor vehicle and other excises	961,000	961,000	916,575	-	916,575	(44,425)
Departmental and other revenue	462,447	462,447	548,186	-	548,186	85,739
License and permits	265,000	265,000	225,198	-	225,198	(39,802)
Penalties and interest on taxes	124,000	124,000	83,657	-	83,657	(40,343)
Fines and forfeitures	71,500	71,500	64,835	-	64,835	(6,665)
Investment income	20,000	20,000	11,331	-	11,331	(8,669)
Total Revenues	17,528,842	17,528,842	17,565,745	-	17,565,745	36,903
EXPENDITURES						
General government	1,475,145	1,534,517	1,447,127	72,396	1,519,523	14,994
Public safety	3,272,456	3,274,635	3,226,499	41,500	3,267,999	6,656
Education	9,895,041	9,895,041	9,861,451	-	9,861,451	33,590
Public works	995,865	1,056,749	971,280	80,000	1,051,280	5,469
Health and human services	308,137	345,377	336,520	-	336,520	8,857
Culture and recreation	196,246	193,918	169,736	23,721	193,457	461
Pension and fringe benefits	1,554,084	1,665,645	1,649,762	-	1,649,762	15,883
State and county tax assessments	182,841	182,841	182,841	-	182,841	-
Debt service	175,507	159,037	157,037	-	157,037	2,000
Total Expenditures	18,055,322	18,307,780	18,002,252	217,617	18,219,869	87,911
OTHER FINANCING SOURCES (USES)						
Transfers in	434,976	434,976	430,819	-	430,819	(4,157)
Transfers out	(100,000)	(100,000)	(100,000)	-	(100,000)	-
Total Other Financing Sources (Uses)	334,976	334,976	330,819	-	330,819	(4,157)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(191,504)	(443,962)	(105,689)	\$ (217,617)	\$ (323,306)	\$ 120,656
BUDGETARY FUND BALANCES, JULY 1, 2009	1,009,335	1,009,335	1,009,335			
BUDGETARY FUND BALANCES, June 30, 2010	\$ 817,831	\$ 565,373	\$ 903,646			
Budgetary deficit funded from:						
Teacher's Deferral	\$ 16,795	\$ 16,795				
Free Cash	175,000	427,940				
Prior year encumbrances	88,709	88,709				
Miscellaneous other	(89,000)	(89,482)				
	\$ 191,504	\$ 443,962				

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, 2010

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 \$252,000 of supplemental budgetary changes during the year, which were all funded through an appropriation of free cash.

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. A reconciliation is provided below.

Revenues on a GAAP basis	\$ 17,641,361
On-behalf teacher's receipts	<u>(75,610)</u>
Revenues on a Budgetary basis	<u>\$ 17,565,751</u>
Expenditures on a GAAP basis	\$ 18,077,863
On-behalf teacher's expenditures	<u>(75,610)</u>
Expenditures on a Budgetary basis	<u>\$ 18,002,253</u>