

***TOWN OF IPSWICH, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2010***

TOWN OF IPSWICH, MASSACHUSETTS

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JUNE 30, 2010

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Town of Ipswich, 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 Ipswich, Massachusetts, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Ipswich, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of The Town of Ipswich, Massachusetts, as of June 30, 2009, were audited by other auditors whose report dated November 30, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ipswich, Massachusetts as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2010 on our consideration of the Town of Ipswich, Massachusetts' 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, other postemployment benefit plan schedule of funding progress and employer contributions, and other postemployment benefit plan actuarial methods and assumptions located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The additional information – municipal light enterprise fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Powers & Sullivan*

November 16, 2010

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Town of Ipswich, we offer readers of the Town of Ipswich's financial statements this narrative overview and analysis of the financial activities of the Town of Ipswich for the fiscal year ended June 30, 2010. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

### **Financial Highlights**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$75.1 million (net assets).
- Of this amount, 11% or \$8.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$545,000.
- At the close of the current fiscal year, the Town's governmental funds reported an ending total fund balance of \$9.6 million, an increase of approximately \$1.4 million in comparison with the prior year. Approximately \$6.6 million represents unreserved fund balance of the general fund, special revenue funds, and permanent funds. The nonmajor capital project funds reported an ending balance of \$791,000. The open space land acquisition major capital project fund reported bond proceeds of \$2.6 million to permanently finance the capital project. Accordingly, the fund ended the fiscal year with no fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$1.6 million or 4% of total general fund expenditures.
- The Town's total gross bonded debt increased by \$1.6 million during the current fiscal year.

### ***Overview of the Financial Statements***

This discussion and analysis are intended to serve as an introduction to the Town of Ipswich's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

code enforcement, human services, library, and interest. The business-type activities include water, sewer and municipal light operations.

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

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

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

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information following the notes to the basic financial statements to demonstrate compliance with this budget.

**Proprietary funds.** The Town maintains only one type of proprietary fund.

*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, sewer and municipal light operations, all of which are considered to be major funds.

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

**Notes to the basic 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.

## Government-wide Financial Analysis

### Governmental Activities:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Ipswich's assets exceeded liabilities for governmental activities by \$47.6 million at the close of FY2010.

	FY 2010 Governmental Activities	FY 2009 Governmental Activities
<b>Assets:</b>		
Current assets.....	\$ 12,673,288	\$ 11,801,700
Noncurrent assets (excluding capital).....	7,848,484	8,696,860
Capital assets.....	<u>64,584,636</u>	<u>62,828,449</u>
<b>Total assets.....</b>	<b><u>85,106,408</u></b>	<b><u>83,327,009</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	2,241,509	1,387,382
Noncurrent liabilities (excluding debt).....	3,346,410	2,627,730
Current debt.....	2,665,000	3,383,490
Noncurrent debt.....	<u>29,257,500</u>	<u>28,470,500</u>
<b>Total liabilities.....</b>	<b><u>37,510,419</u></b>	<b><u>35,869,102</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	41,384,974	40,585,873
Restricted.....	2,795,245	3,209,011
Unrestricted.....	<u>3,415,770</u>	<u>3,663,023</u>
<b>Total net assets.....</b>	<b><u>\$ 47,595,989</u></b>	<b><u>\$ 47,457,907</u></b>

Net assets of \$41.4 million (87%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 net assets, \$2.8 million (6%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$3.4 million (7%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities assets exceeded liabilities by \$47.6 million at June 30, 2010. The governmental activities net assets increased by \$138,000 in fiscal year 2010. Some of the primary reasons for this increase include the net impact the recognition of capital grants of \$975,000, the timing difference between budgeted payments to reduce debt of \$2.5 million and recording depreciation on capital assets which is a non-budgeted expense of \$1.7 million, and the recognition of other postemployment benefit expenses of \$1.4 million. The other postemployment benefit expense is the result of the Town's second year of implementation of GASB Statement #45. Under this pronouncement, the Town was required to obtain an actuarial valuation of the Town's liability to pay other postemployment benefits to current employees and retirees. The Town is allowed to amortize the liability, which totaled \$24 million, over 28 years, due to there being no legal obligation to fund the liability at this time. The Town has opted to continue to fund other postemployment benefits on a pay-as-you go basis. As a result, the Town is required to record the difference between the current year pay-as-you go cost and the current year actuarial

determined expense as a liability in the full accrual financial statements. This difference totaled \$1.4 million for governmental activities for the fiscal year ended June 30, 2010.

	FY 2010 Governmental Activities	FY 2009 Governmental Activities
	<u>                    </u>	<u>                    </u>
<b>Program revenues:</b>		
Charges for services.....	\$ 3,310,707	\$ 3,081,260
Operating grants and contributions.....	9,008,939	9,013,414
Capital grants and contributions.....	975,311	(488,561)
<b>General revenues:</b>		
Real estate and personal property taxes.....	28,286,833	27,147,868
Motor vehicle and other excise taxes.....	1,630,029	1,671,930
Hotel/motel tax.....	30,013	35,225
Penalties and interest on taxes.....	151,416	110,417
Payments in lieu of taxes.....	400,671	406,020
Grants and contributions not restricted to specific programs.....	1,878,902	2,118,116
Unrestricted investment income.....	168,497	127,150
Gain on disposal of capital assets.....	-	330,000
Miscellaneous.....	61,785	-
<b>Total revenues.....</b>	<b><u>45,903,103</u></b>	<b><u>43,552,839</u></b>
<b>Expenses:</b>		
General government.....	1,602,041	1,054,423
Finance.....	1,285,773	1,299,234
Planning and development.....	406,364	289,422
Public safety.....	5,504,546	5,480,309
Education.....	29,197,473	29,051,361
Public works.....	4,442,345	4,128,239
Code enforcement.....	605,827	563,812
Human services.....	589,735	535,623
Library.....	789,329	795,067
Interest.....	1,324,694	1,441,388
<b>Total expenses.....</b>	<b><u>45,748,127</u></b>	<b><u>44,638,878</u></b>
<b>Excess (Deficiency) before transfers.....</b>	<b>154,976</b>	<b>(1,086,039)</b>
<b>Transfers.....</b>	<b><u>(16,894)</u></b>	<b><u>(17,515)</u></b>
<b>Change in net assets.....</b>	<b><u>\$ 138,082</u></b>	<b><u>\$ (1,103,554)</u></b>

Governmental capital grants and contributions increased by \$1.5 million during fiscal year 2010. This was due to a fiscal year 2009 \$1.5 million decrease in the estimate of capital grants to be received in future years, which resulted in reporting net capital grant revenue of negative \$489,000 for fiscal year 2009. Capital grant revenue recorded for fiscal year 2010 consisted primarily of state highway grants. General government expenses increased by \$548,000 mainly due to budgeted increases in the general fund, increases in payments to Ipswich Community Access Media (ICAM), and other increases in operating activities of gift and grant funds. Planning and development expenses increased by \$117,000, partially due to increased operating activities of the Ipswich Affordable Housing Trust.

**Business-type Activities**

For the Town's business-type activities, assets exceeded liabilities by \$27.5 million at the close of FY2010.

	FY 2010 Business-type Activities	FY 2009 Business-type Activities
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets.....	\$ 9,299,634	\$ 9,254,710
Noncurrent assets (excluding capital).....	1,259,529	1,159,952
Capital assets.....	<u>33,528,622</u>	<u>32,441,341</u>
<b>Total assets.....</b>	<b><u>44,087,785</u></b>	<b><u>42,856,003</u></b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,096,043	2,855,133
Noncurrent liabilities (excluding debt).....	602,228	555,071
Current debt.....	1,732,800	1,791,125
Noncurrent debt.....	<u>11,119,900</u>	<u>10,524,700</u>
<b>Total liabilities.....</b>	<b><u>16,550,971</u></b>	<b><u>15,726,029</u></b>
<b>Net Assets:</b>		
Capital assets net of related debt.....	20,675,922	21,290,990
Restricted.....	1,905,270	1,690,257
Unrestricted.....	<u>4,955,622</u>	<u>4,148,727</u>
<b>Total net assets.....</b>	<b><u>\$ 27,536,814</u></b>	<b><u>\$ 27,129,974</u></b>

Business-type net assets of \$20.7 million (75%) represent investments in capital assets net of related debt. Net assets of \$1.9 million (7%) are restricted for the Light Department's Rate Stabilization and Capital Depreciation funds. The remaining \$5.0 million (18%) is available to be used for the ongoing operation of the Town's water, sewer and municipal light departments.

	FY 2010 Business-type Activities	FY 2009 Business-type Activities
	<u>                    </u>	<u>                    </u>
<b>Program revenues:</b>		
Charges for services.....	\$ 17,870,517	\$ 18,021,331
Operating grants and contributions.....	<u>124,108</u>	<u>267,202</u>
<b>Total revenues.....</b>	<b><u>17,994,625</u></b>	<b><u>18,288,533</u></b>
<b>Expenses:</b>		
Water enterprise.....	2,235,300	2,443,010
Sewer enterprise.....	1,411,294	1,318,092
Municipal light enterprise.....	<u>13,958,085</u>	<u>13,976,143</u>
<b>Total expenses.....</b>	<b><u>17,604,679</u></b>	<b><u>17,737,245</u></b>
<b>Excess before transfers.....</b>	<b>389,946</b>	<b>551,288</b>
<b>Transfers.....</b>	<b><u>16,894</u></b>	<b><u>17,515</u></b>
<b>Change in net assets.....</b>	<b><u>\$ 406,840</u></b>	<b><u>\$ 568,803</u></b>

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

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund totaled \$1.8 million, of which \$196,000 has been designated for the fiscal year 2011 operating budget. The total general fund balance of \$3 million increased by \$233,000 during fiscal year 2010. This increase is partially attributable to higher than budgeted revenues from excise taxes, tax titles, state funding, licenses and permits, and Medicaid reimbursements. 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 5% of total general fund expenditures, while total fund balance represents 8% of that same amount.

The Town's open space land acquisition major fund is used to account for acquisitions made through the Town's open space program. In the spring of 2000, The Town authorized a \$10 million Open Space Bond for the protection of land for open space, water supply protection and recreation. During fiscal year 2010, \$2.6 million in acquisitions made through this program were permanently financed through the issuance of long-term bonds. In fiscal year 2010, the Town contributed \$2.1 million toward the purchase of land restrictions on a 247 acre of land in an area of Town known as Maplecroft Farms. This purchase was included in the bonds issued in fiscal year 2010.

Non-major governmental funds reported an increase of \$616,000 which was comprised of other capital projects, special revenue funds and permanent funds.

### ***General Fund Budgetary Highlights***

The increase of \$207,000 between the original budget and the final amended budget consisted mainly of the net impact of \$319,000 in free cash appropriated to finance various operating accounts, and voted budget reductions totaling approximately \$152,000. The original available general fund budget consisted of \$37.3 million in departmental appropriations and \$764,000 in amounts carried forward from the fiscal year 2009 budget.

Total revenues came in over budget by approximately \$770,000, and appropriation turn-backs totaled \$206,000. The only appropriation deficit was reported in the state and county assessment line.

### ***Capital Asset and Debt Administration***

During the current fiscal year the Town expended \$3.4 million on governmental activities capital assets consisting mainly of \$2.1 million for the Maplecroft Farm land acquisition, \$681,000 for road construction, \$409,000 in vehicle purchases, and \$339,000 for building improvements. Business-type activities expended \$2.8 million for capital assets. Of this amount, the water enterprise fund expended \$198,000 for infrastructure, the sewer enterprise fund expended \$411,000 which was mainly for infrastructure, and the electric light department expended \$2.1 million for the distribution and transmission plants.

The Town's governmental funds had total bonded debt outstanding of \$31.9 million at the end of the current fiscal year. Of this amount, \$23.8 million is related to school projects, \$6.2 million relates to land purchases, \$900,000 relates to library renovations, \$802,000 relates to the purchase of equipment, and \$310,000 relates to other capital related projects. The enterprise funds had \$12 million of debt outstanding at the end of the current year. Of this amount, \$3.2 million related to water, \$2.9 million related to sewer, and \$6 million related to electric light.

The Town issued long term debt in the current year totaling \$4.9 million which includes \$2.1 million in bond anticipation notes the Town permanently financed subsequent to year end. Of this amount, \$3.5 million was for governmental purposes including land acquisition and equipment purchases, \$893,000 was for water projects, and \$600,000 was for the electric light department. Additionally, the Town had \$2.9 million in bond anticipation notes outstanding at year end. Of this amount, \$2.1 million was for the Maplecroft Farms land purchase through the open space program, \$35,000 was for water projects and \$800,000 was for the electric light department's wind turbine project.

Please refer to the notes to the basic financial statements for further discussion of the capital asset and debt activity.

### ***Economic Factors and Next Year's Budgets and Rates***

The Annual Town Meeting approved the Town's Operating Budget for Fiscal 2011 in the amount of \$14,191,874 and the School's Operating Budget for \$20,363,261. Town Meeting approved \$2,544,125 for the High School/Middle School Capital Project debt service for fiscal 2011.

The Water and Sewer budgets for fiscal 2011 were approved at the Annual Town Meeting for a total of \$4,116,708. Of this total, the Water budget is \$2,624,667, and the Sewer Budget is \$1,492,041. The Water budget will be offset in part by a water surplus of \$275,760. The balance of said appropriations will be met by revenues of each department during fiscal 2011.

The Annual Town Meeting voted down an appropriation of \$350,095 as Ipswich's share of the operating and debt service expenses of the Whittier Regional Vocational Technical High School for Fiscal 2011. Without Town Meeting approval, the Town cannot pay this appropriation. In October 2010, the Special Town Meeting approved this appropriation of \$350,095.

Town Meeting appropriated \$2,000,000 to implement a pavement management program involving major street reconstruction. This appropriation is to be funded by the issuance of serial bonds under Massachusetts General Laws Chapter 44.

Town Meeting appropriated \$346,381 under the provisions of Chapter 90 of the General Laws.

Under Article 20 of the Annual Town Meeting, \$1,800,000 was appropriated for the purchase of equipment for the construction and rehabilitation of the sludge dewatering facilities at the Wastewater Treatment Plant. With the approval of the Board of Wastewater Commissioners, this project will be funded by issuing bonds or serial notes under the provisions of Massachusetts General Laws Chapter 44.

The Feoffee's legal issues have not yet been resolved and the annual gift to the schools has not been reinstated. The \$200,000 loan transferred from free cash to the school several years ago to replace the lost Feoffee's gift has not yet been paid back to the Town. The amount owed has been reduced to \$160,000.

## ***Requests for Information***

This financial report is designed to provide a general overview of the Town of Ipswich's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 25 Green Street, Ipswich, Massachusetts 01938.

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2010

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 8,260,300	\$ 3,304,603	\$ 11,564,903
Restricted cash and cash equivalents.....	-	546,080	546,080
Investments.....	1,826,550	-	1,826,550
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	405,859	-	405,859
Tax and utility liens.....	494,460	-	494,460
Motor vehicle and other excise taxes.....	113,488	-	113,488
User fees.....	-	2,381,221	2,381,221
Departmental and other.....	34,991	-	34,991
Special assessments.....	-	7,006	7,006
Intergovernmental.....	1,510,051	27,409	1,537,460
Tax foreclosures.....	27,589	-	27,589
Purchased power working capital and prepayments....	-	2,808,916	2,808,916
Deferred charges.....	-	83,381	83,381
Inventory.....	-	141,018	141,018
<b>NONCURRENT:</b>			
Restricted assets:			
Cash and cash equivalents.....	-	1,005,801	1,005,801
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	7,725,384	206,856	7,932,240
Special assessments.....	-	46,872	46,872
Loans.....	123,100	-	123,100
Capital Assets:			
Nondepreciable.....	18,429,567	3,393,618	21,823,185
Depreciable.....	46,155,069	30,135,004	76,290,073
<b>TOTAL ASSETS.....</b>	<b>85,106,408</b>	<b>44,087,785</b>	<b>129,194,193</b>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	580,778	1,878,114	2,458,892
Accrued payroll.....	165,420	78,911	244,331
Accrued interest.....	164,224	63,563	227,787
Abandoned property.....	135,035	-	135,035
Other liabilities.....	403,363	990,916	1,394,279
Compensated absences.....	792,689	84,539	877,228
Bonds and notes payable.....	2,665,000	1,732,800	4,397,800
<b>NONCURRENT:</b>			
Landfill closure.....	-	160,000	160,000
Customer deposits payable.....	-	75,181	75,181
Compensated absences.....	371,847	118,806	490,653
Other postemployment benefits.....	2,974,563	248,241	3,222,804
Bonds and notes payable.....	29,257,500	11,119,900	40,377,400
<b>TOTAL LIABILITIES.....</b>	<b>37,510,419</b>	<b>16,550,971</b>	<b>54,061,390</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	41,384,974	20,675,922	62,060,896
Restricted for:			
Rate stabilization.....	-	1,625,120	1,625,120
Depreciation.....	-	280,150	280,150
Affordable Housing.....	278,780	-	278,780
Debt service.....	430,916	-	430,916
Loans.....	123,100	-	123,100
Permanent funds:			
Expendable.....	755,061	-	755,061
Nonexpendable.....	686,712	-	686,712
Gifts and grants.....	520,676	-	520,676
Unrestricted.....	3,415,770	4,955,622	8,371,392
<b>TOTAL NET ASSETS.....</b>	<b>\$ 47,595,989</b>	<b>\$ 27,536,814</b>	<b>\$ 75,132,803</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 1,602,041	\$ 701,853	\$ 67,630	\$ -	\$ (832,558)
Finance.....	1,285,773	882	-	-	(1,284,891)
Planning and development.....	406,364	111,069	151,732	-	(143,563)
Public safety.....	5,504,546	395,066	83,764	6,250	(5,019,466)
Education.....	29,197,473	1,414,241	7,943,616	-	(19,839,616)
Public works.....	4,442,345	181,762	82,750	969,061	(3,208,772)
Code enforcement.....	605,827	381,728	-	-	(224,099)
Human services.....	589,735	42,248	120,639	-	(426,848)
Library.....	789,329	81,858	27,384	-	(680,087)
Interest.....	1,324,694	-	531,424	-	(793,270)
<b>Total Governmental Activities.....</b>	<b>45,748,127</b>	<b>3,310,707</b>	<b>9,008,939</b>	<b>975,311</b>	<b>(32,453,170)</b>
<i>Business-Type Activities:</i>					
Water.....	2,235,300	2,349,307	58,329	-	172,336
Sewer.....	1,411,294	1,576,354	37,959	-	203,019
Municipal Light.....	13,958,085	13,944,856	27,820	-	14,591
<b>Total Business-Type Activities.....</b>	<b>17,604,679</b>	<b>17,870,517</b>	<b>124,108</b>	<b>-</b>	<b>389,946</b>
<b>Total Primary Government.....</b>	<b>\$ 63,352,806</b>	<b>\$ 21,181,224</b>	<b>\$ 9,133,047</b>	<b>\$ 975,311</b>	<b>\$ (32,063,224)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <b>(32,453,170)</b>	\$ <b>389,946</b>	\$ <b>(32,063,224)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	28,286,833	-	28,286,833
Motor vehicle and other excise taxes.....	1,630,029	-	1,630,029
Hotel/motel tax.....	30,013	-	30,013
Penalties and interest on taxes.....	151,416	-	151,416
Payments in lieu of taxes.....	400,671	-	400,671
Grants and contributions not restricted to specific programs.....	1,878,902	-	1,878,902
Unrestricted investment income.....	168,497	-	168,497
Miscellaneous.....	61,785	-	61,785
<i>Transfers, net</i> .....	<u>(16,894)</u>	<u>16,894</u>	<u>-</u>
Total general revenues and transfers.....	<u>32,591,252</u>	<u>16,894</u>	<u>32,608,146</u>
Change in net assets.....	138,082	406,840	544,922
<i>Net Assets:</i>			
Beginning of year.....	<u>47,457,907</u>	<u>27,129,974</u>	<u>74,587,881</u>
End of year.....	\$ <u><u>47,595,989</u></u>	\$ <u><u>27,536,814</u></u>	\$ <u><u>75,132,803</u></u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2010

<b>ASSETS</b>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 4,143,133	\$ 4,117,167	\$ 8,260,300
Investments.....	-	1,826,550	1,826,550
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	405,859	-	405,859
Tax liens.....	494,460	-	494,460
Motor vehicle and other excise taxes.....	113,488	-	113,488
Departmental and other.....	34,991	-	34,991
Intergovernmental.....	8,583,760	651,675	9,235,435
Loans.....	-	123,100	123,100
Tax foreclosures.....	27,589	-	27,589
<b>TOTAL ASSETS.....</b>	<b>\$ 13,803,280</b>	<b>\$ 6,718,492</b>	<b>\$ 20,521,772</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 540,162	\$ 40,616	\$ 580,778
Accrued payroll.....	137,288	28,132	165,420
Abandoned property.....	135,035	-	135,035
Other liabilities.....	403,363	-	403,363
Deferred revenues.....	9,555,065	123,100	9,678,165
<b>TOTAL LIABILITIES.....</b>	<b>10,770,913</b>	<b>191,848</b>	<b>10,962,761</b>
<b>FUND BALANCES:</b>			
Reserved for:			
Encumbrances and continuing appropriations.....	799,817	-	799,817
Debt service.....	430,916	-	430,916
Perpetual permanent funds.....	-	694,462	694,462
Unreserved:			
Designated for subsequent year's expenditures.....	196,134	-	196,134
Undesignated, reported in:			
General fund.....	1,605,500	-	1,605,500
Special revenue funds.....	-	4,294,118	4,294,118
Capital projects funds.....	-	790,753	790,753
Permanent funds.....	-	747,311	747,311
<b>TOTAL FUND BALANCES.....</b>	<b>3,032,367</b>	<b>6,526,644</b>	<b>9,559,011</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 13,803,280</b>	<b>\$ 6,718,492</b>	<b>\$ 20,521,772</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2010

Total governmental fund balances.....	\$	9,559,011
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		64,584,636
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		9,678,165
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(164,224)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(31,922,500)	
Compensated absences.....	(1,164,536)	
Other postemployment benefits.....	<u>(2,974,563)</u>	
Net effect of reporting long-term liabilities.....		<u>(36,061,599)</u>
Net assets of governmental activities.....	\$	<u>47,595,989</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	General	Open Space Land Acquisition	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ 27,995,433	\$ -	\$ -	\$ 27,995,433
Tax liens.....	127,093	-	-	127,093
Motor vehicle and other excise taxes.....	1,620,701	-	20,635	1,641,336
Charges for services.....	27,644	-	1,891,488	1,919,132
Hotel/motel tax.....	-	-	30,013	30,013
Penalties and interest on taxes.....	151,416	-	-	151,416
Payments in lieu of taxes.....	400,671	-	-	400,671
Licenses and permits.....	650,846	-	-	650,846
Fines and forfeitures.....	53,285	-	-	53,285
Intergovernmental.....	8,495,034	-	3,949,342	12,444,376
Departmental and other.....	316,616	-	47,627	364,243
Contributions.....	-	-	191,759	191,759
Investment income.....	63,752	-	105,933	169,685
Other.....	213,275	-	225,281	438,556
<b>TOTAL REVENUES.....</b>	<b>40,115,766</b>	<b>-</b>	<b>6,462,078</b>	<b>46,577,844</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	412,651	-	641,836	1,054,487
Finance.....	1,036,820	-	-	1,036,820
Public safety.....	4,007,419	-	456,575	4,463,994
Education.....	19,771,170	-	3,981,625	23,752,795
Public works.....	3,720,407	-	942,649	4,663,056
Code enforcement.....	407,153	-	-	407,153
Planning and development.....	232,608	2,070,000	256,123	2,558,731
Human services.....	371,453	-	205,605	577,058
Library.....	510,689	-	125,089	635,778
Pension benefits.....	2,682,000	-	-	2,682,000
Property and liability insurance.....	161,615	-	-	161,615
Employee benefits.....	1,953,301	-	-	1,953,301
Other.....	96,629	-	-	96,629
State and county charges.....	739,100	-	-	739,100
Debt service:				
Principal.....	2,516,875	-	-	2,516,875
Interest.....	1,339,405	-	-	1,339,405
<b>TOTAL EXPENDITURES.....</b>	<b>39,959,295</b>	<b>2,070,000</b>	<b>6,609,502</b>	<b>48,638,797</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>156,471</b>	<b>(2,070,000)</b>	<b>(147,424)</b>	<b>(2,060,953)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds and notes.....	-	2,595,000	857,000	3,452,000
Transfers in.....	143,224	-	50,000	193,224
Transfers out.....	(66,894)	-	(143,224)	(210,118)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>76,330</b>	<b>2,595,000</b>	<b>763,776</b>	<b>3,435,106</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>232,801</b>	<b>525,000</b>	<b>616,352</b>	<b>1,374,153</b>
<b>FUND BALANCES AT BEGINNING OF YEAR .....</b>	<b>2,799,566</b>	<b>(525,000)</b>	<b>5,910,292</b>	<b>8,184,858</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 3,032,367</b>	<b>\$ -</b>	<b>\$ 6,526,644</b>	<b>\$ 9,559,011</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds.....	\$	1,374,153
<p>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.</p>		
Capital outlay.....	3,437,097	
Depreciation expense.....	<u>(1,680,910)</u>	
Net effect of reporting capital assets.....		1,756,187
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(674,741)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(3,452,000)	
Amortization of deferred loss on refunding.....	147,110	
Debt service principal payments.....	2,516,875	
Amortization of premiums and discounts.....	<u>(145,495)</u>	
Net effect of reporting long-term debt.....		(933,510)
<p>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.</p>		
Net change in compensated absences accrual.....	(21,880)	
Net change in other postemployment benefit liability.....	(1,375,223)	
Net change in accrued interest on long-term debt.....	<u>13,096</u>	
Net effect of recording long-term liabilities.....		(1,384,007)
Change in net assets of governmental activities.....	\$	<u><u>138,082</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
<b>ASSETS</b>				
<b>CURRENT:</b>				
Cash and cash equivalents.....	\$ 1,066,719	\$ 937,518	\$ 1,300,366	\$ 3,304,603
Restricted cash and cash equivalents.....	77,054	40,340	428,686	546,080
Receivables, net of allowance for uncollectibles:				
User fees.....	492,575	173,320	1,715,326	2,381,221
Special assessments.....	-	7,006	-	7,006
Intergovernmental.....	-	27,409	-	27,409
Purchased power working capital and prepayments.....	-	-	2,808,916	2,808,916
Deferred charges.....	-	-	83,381	83,381
Inventory.....	-	-	141,018	141,018
	<u>1,636,348</u>	<u>1,185,593</u>	<u>6,477,693</u>	<u>9,299,634</u>
<b>NONCURRENT:</b>				
Restricted cash and cash equivalents.....	-	-	1,005,801	1,005,801
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	-	206,856	-	206,856
Special assessments.....	-	46,872	-	46,872
Capital assets, net of accumulated depreciation.....				
Nondepreciable.....	1,557,077	1,026,678	809,863	3,393,618
Depreciable.....	<u>11,863,209</u>	<u>6,725,933</u>	<u>11,545,862</u>	<u>30,135,004</u>
	<u>13,420,286</u>	<u>8,006,339</u>	<u>13,361,526</u>	<u>34,788,151</u>
<b>TOTAL ASSETS.....</b>	<u>15,056,634</u>	<u>9,191,932</u>	<u>19,839,219</u>	<u>44,087,785</u>
<b>LIABILITIES</b>				
<b>CURRENT:</b>				
Warrants payable.....	70,171	24,007	1,783,936	1,878,114
Accrued payroll.....	24,806	15,380	38,725	78,911
Accrued interest.....	23,619	14,650	25,294	63,563
Customer deposits payable.....	-	-	75,181	75,181
Other liabilities.....	-	-	990,916	990,916
Compensated absences.....	45,297	30,410	8,832	84,539
Bonds and notes payable.....	<u>340,000</u>	<u>252,800</u>	<u>1,140,000</u>	<u>1,732,800</u>
	<u>503,893</u>	<u>337,247</u>	<u>4,062,884</u>	<u>4,904,024</u>
<b>NONCURRENT:</b>				
Environmental remediation liabilities.....	-	-	160,000	160,000
Compensated absences.....	28,000	11,313	79,493	118,806
Other postemployment benefits.....	84,312	44,080	119,849	248,241
Bonds and notes payable.....	<u>2,854,000</u>	<u>2,605,900</u>	<u>5,660,000</u>	<u>11,119,900</u>
	<u>2,966,312</u>	<u>2,661,293</u>	<u>6,019,342</u>	<u>11,646,947</u>
<b>TOTAL LIABILITIES.....</b>	<u>3,470,205</u>	<u>2,998,540</u>	<u>10,082,226</u>	<u>16,550,971</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	10,226,286	4,893,911	5,555,725	20,675,922
Restricted for:				
Rate stabilization.....	-	-	1,625,120	1,625,120
Depreciation.....	-	-	280,150	280,150
Unrestricted.....	<u>1,360,143</u>	<u>1,299,481</u>	<u>2,295,998</u>	<u>4,955,622</u>
<b>TOTAL NET ASSETS.....</b>	<u>\$ 11,586,429</u>	<u>\$ 6,193,392</u>	<u>\$ 9,756,993</u>	<u>\$ 27,536,814</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
<b>OPERATING REVENUES:</b>				
Charges for services .....	\$ 2,349,307	\$ 1,572,935	\$ 13,885,846	\$ 17,808,088
Other.....	-	3,419	59,010	62,429
<b>TOTAL OPERATING REVENUES .....</b>	<b>2,349,307</b>	<b>1,576,354</b>	<b>13,944,856</b>	<b>17,870,517</b>
<b>OPERATING EXPENSES:</b>				
Cost of services and administration .....	1,663,834	1,016,757	12,761,879	15,442,470
Depreciation.....	458,638	271,941	978,390	1,708,969
<b>TOTAL OPERATING EXPENSES .....</b>	<b>2,122,472</b>	<b>1,288,698</b>	<b>13,740,269</b>	<b>17,151,439</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>226,835</b>	<b>287,656</b>	<b>204,587</b>	<b>719,078</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income.....	58,329	11,238	27,820	97,387
Interest expense.....	(112,828)	(122,596)	(217,816)	(453,240)
Intergovernmental.....	-	26,721	-	26,721
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(54,499)</b>	<b>(84,637)</b>	<b>(189,996)</b>	<b>(329,132)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>172,336</b>	<b>203,019</b>	<b>14,591</b>	<b>389,946</b>
<b>TRANSFERS:</b>				
Transfers in.....	16,894	-	-	16,894
<b>CHANGE IN NET ASSETS.....</b>	<b>189,230</b>	<b>203,019</b>	<b>14,591</b>	<b>406,840</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>11,397,199</b>	<b>5,990,373</b>	<b>9,742,402</b>	<b>27,129,974</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 11,586,429</b>	<b>\$ 6,193,392</b>	<b>\$ 9,756,993</b>	<b>\$ 27,536,814</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Municipal Light	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 2,332,563	\$ 1,594,850	\$ 13,683,360	\$ 17,610,773
Payments to vendors.....	(857,070)	(520,466)	(11,152,284)	(12,529,820)
Payments to employees.....	(822,818)	(445,319)	(1,148,287)	(2,416,424)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>652,675</b>	<b>629,065</b>	<b>1,382,789</b>	<b>2,664,529</b>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers in.....	16,894	-	-	16,894
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	1,821,000	-	1,500,000	3,321,000
Acquisition and construction of capital assets.....	(197,820)	(410,706)	(2,189,704)	(2,798,230)
Principal payments on bonds and notes.....	(2,034,125)	(221,579)	(500,000)	(2,755,704)
Interest expense.....	(108,097)	(102,721)	(211,117)	(421,935)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(519,042)</b>	<b>(735,006)</b>	<b>(1,400,821)</b>	<b>(2,654,869)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	58,329	11,238	27,820	97,387
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>208,856</b>	<b>(94,703)</b>	<b>9,788</b>	<b>123,941</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	<b>934,917</b>	<b>1,072,561</b>	<b>2,725,065</b>	<b>4,732,543</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	<b>\$ 1,143,773</b>	<b>\$ 977,858</b>	<b>\$ 2,734,853</b>	<b>\$ 4,856,484</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u></b>				
<b><u>FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 226,835	\$ 287,656	\$ 204,587	\$ 719,078
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	458,638	271,941	978,390	1,708,969
Changes in assets and liabilities:				
User fees.....	(16,744)	8,132	(261,496)	(270,108)
Special assessments.....	-	10,364	-	10,364
Purchased power working capital and prepayments.....	-	-	182,088	182,088
Deferred charges.....	-	-	8,614	8,614
Inventory.....	-	-	22,061	22,061
Warrants payable.....	(66,416)	16,655	315,502	265,741
Accrued payroll.....	1,568	5,558	364	7,490
Customer deposits payable and other liabilities.....	-	-	(108,957)	(108,957)
Accrued compensated absences.....	4,298	6,259	2,116	12,673
Other postemployment benefits.....	44,496	22,500	39,520	106,516
<b>Total adjustments.....</b>	<b>425,840</b>	<b>341,409</b>	<b>1,178,202</b>	<b>1,945,451</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 652,675</b>	<b>\$ 629,065</b>	<b>\$ 1,382,789</b>	<b>\$ 2,664,529</b>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>				
Intergovernmental subsidy of debt service.....	-	55,142	-	55,142

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Other Postemployment Benefit Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 53,994	\$ 231,150	\$ 385,640
<b>LIABILITIES</b>			
Warrants payable.....	-	-	65,710
Liabilities due depositors.....	-	-	319,930
<b>TOTAL LIABILITIES.....</b>	<b>-</b>	<b>-</b>	<b>385,640</b>
<b>NET ASSETS</b>			
Held in trust for other purposes.....	\$ 53,994	\$ 231,150	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

	Other Postemployment Benefit Fund	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer contributions.....	\$ 55,920	\$ -
Net investment income (loss):		
Investment income.....	(1,926)	\$ 18,603
TOTAL ADDITIONS.....	53,994	18,603
<u>DEDUCTIONS:</u>		
Educational scholarships.....	-	8,300
CHANGE IN NET ASSETS.....	53,994	10,303
NET ASSETS AT BEGINNING OF YEAR.....	-	220,847
NET ASSETS AT END OF YEAR.....	\$ 53,994	\$ 231,150

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Ipswich, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

**A. Reporting Entity**

The Town of Ipswich is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. It has been determined that there are no component units that require inclusion in the basic financial statements.

**B. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

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

#### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *open space land acquisition fund* is a capital project fund used to account for the acquisition of land to be used for conservation and open space.

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 fund* is 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 fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise and trust funds).

The *permanent fund* is 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.

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the Town's water activities.

The *sewer enterprise fund* is used to account for the Town's sewer activities.

The *municipal light enterprise fund* is used to account for the Town's municipal light activities.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *other postemployment benefit trust fund* is used to accumulate resources to provide funding for future other postemployment benefits (OPEB) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and

trustee policies only allow the trustees to authorize spending of the realized investment earnings. The Town maintains one private purpose trust fund for scholarships.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### *Government-Wide and Fund Financial Statements*

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

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed in the first quarter after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

#### ***Motor Vehicle and Other Excise Taxes***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles

registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

### ***User Fees***

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed once a year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

### ***Departmental and Other***

Departmental and other receivables consist primarily of amounts due from police and fire details and are recorded as receivables in the fiscal year accrued.

### ***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

## **F. Inventories**

### ***Government-Wide and Fund Financial Statements***

Inventories, other than those associated with the electric light enterprise fund, are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

Inventories of the electric light enterprise fund consist of materials and supplies, which are stated at average cost, and fuel which is stated at the lower of cost (first-in, first-out method) or market.

## **G. Restricted Assets**

### ***Government-Wide and Fund Financial Statements***

Certain assets (customer deposits) of the electric light enterprise fund are classified as restricted as these amounts are available to the Department only if a customer account is terminated with an outstanding balance.

**H. Capital Assets**

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, when actual historical cost could not be determined. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis, in accordance with Massachusetts General Laws (MGL). The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	40
Machinery and equipment.....	5
Vehicles.....	10
Infrastructure.....	50 - 75

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

**I. Interfund Receivables and Payables**

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. The change in deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net Assets reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state’s school building program is not considered to be capital related debt.

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Rate stabilization” represents amounts restricted for the purpose of minimizing exposure to rate fluctuations in the municipal light industry. The fund may be also used to help the Municipal Light Department maintain a competitive position in the marketplace or for other unexpected costs.

“Depreciation” represents amounts restricted pursuant to provisions of the MGL. Cash, in an amount equivalent to the annual depreciation expense, is transferred from unrestricted municipal light funds to the depreciation fund. Interest earned on the balance of the fund remains in the fund. The depreciation fund may be used for capital improvements and upgrades to utility plant assets, nuclear decommissioning costs, the costs of contractual

commitments, the costs of related debt service and deferred costs and debt services costs related to such commitments, which the Municipal Light Commission determine are above market value.

“Affordable housing” represents amounts restricted for a fund (established in accordance with MGL, Chapter 44, Section 53E ½) used to account for activities related to the creation and preservation of affordable housing for the benefit of low to moderate income households.

“Debt service” represents amounts accumulated for the future payment of long-term debt service costs.

“Loans” represents community development outstanding loans receivable balances for the first time homebuyer program.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings that support governmental programs.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents restrictions placed on assets from outside parties, and consist primarily of gifts and federal and state grants.

#### *Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Debt service” represents amounts accumulated for the future payment of long-term debt service costs.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2011 operating budget.

#### M. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

*Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from special revenue and capital projects funds is legally assigned to the general fund unless otherwise directed by MGL.

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

*Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Use of Estimates*Government-Wide and Fund Financial Statements*

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.

Q. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

*Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

**NOTE 2 – CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Ipswich's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$13,025,752 and the bank balance totaled \$13,343,167. Of the bank balance, \$1,816,883 was covered by Federal Depository Insurance, \$9,418,919 was covered by the Depositors Insurance Fund, \$937,002 was collateralized, and \$1,170,363 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2010, the Town had the following investments:

Investment Type	Fair Value	Maturity		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt Securities:</u>				
U.S. Treasury Notes.....	\$ 101,825	\$ -	\$ 50,005	\$ 51,820
Government Sponsored Enterprises.....	843,876	40,453	414,414	389,009
Corporate Bonds.....	392,472	-	281,512	110,960
Bond Mutual Funds.....	49,967	49,967	-	-
Total Debt Securities.....	1,388,140	\$ 90,420	\$ 745,931	\$ 551,789
<u>Other Investments:</u>				
Money Market Mutual Funds.....	63,539			
Mutual Funds.....	438,410			
MMDT.....	698,277			
Total Investments.....	\$ 2,588,366			

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the Town’s investments in debt securities; \$51,820 in U.S. Treasury Notes, \$40,453 in Government Sponsored Enterprises, and \$261,083 in corporate bonds are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and held by the counterparty.

Investment Type	Fair Value	Quality Rating				
		AAA	AA	A	B	Unrated
<u>Debt Securities:</u>						
Government Sponsored Enterprises.....	\$ 843,876	\$ 843,876	\$ -	\$ -	\$ -	\$ -
Corporate Bonds.....	392,472	32,525	150,123	78,435	131,389	-
Bond Mutual Funds.....	49,967	-	-	-	-	49,967
Total Debt Securities.....	\$ 1,286,315	\$ 876,401	\$ 150,123	\$ 78,435	\$ 131,389	\$ 49,967

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has not adopted formal policies related to Credit Risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2010, the Town’s investments with a single issuer that represents 5 percent or more of the Town’s total investments are as follows:

Issuer	Fair Value	Percentage of Total Investments
Verizon.....	\$ 131,389	5.08%
Federal Home Loan Mortgage Corporation..	339,297	13.11%
Federal National Mortgage Association.....	387,110	14.96%

**NOTE 3 – RECEIVABLES**

At June 30, 2010, receivables for the individual major governmental funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 464,080	\$ (58,221)	\$ 405,859
Tax liens.....	494,460	-	494,460
Motor vehicle and other excise taxes.....	226,397	(112,909)	113,488
Departmental and other.....	34,991	-	34,991
Intergovernmental.....	9,235,435	-	9,235,435
Loans.....	123,100	-	123,100
Total.....	\$ <u>10,578,463</u>	\$ <u>(171,130)</u>	\$ <u>10,407,333</u>

At June 30, 2010, receivables for the enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,383,541	\$ (2,320)	\$ 2,381,221
Special assessments.....	7,006	-	7,006
Intergovernmental.....	27,409	-	27,409
Total.....	\$ <u>2,417,956</u>	\$ <u>(2,320)</u>	\$ <u>2,415,636</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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes....	\$ 335,768	\$ -	\$ 335,768
Tax liens .....	494,460	-	494,460
Motor vehicle and other excise taxes.....	113,488	-	113,488
Intergovernmental.....	8,583,760	-	8,583,760
Loans.....	-	123,100	123,100
Tax foreclosures.....	27,589	-	27,589
 Total.....	 \$ 9,555,065	 \$ 123,100	 \$ 9,678,165

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 15,534,439	\$ 2,090,229	\$ (248,005)	\$ 17,376,663
Construction in progress.....	769,310	748,517	(464,923)	1,052,904
 Total capital assets not being depreciated.....	 16,303,749	 2,838,746	 (712,928)	 18,429,567
 <u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,272,516	338,557	-	47,611,073
Machinery, equipment and vehicles.....	4,952,463	677,481	(55,847)	5,574,097
Infrastructure.....	9,093,949	331,545	-	9,425,494
 Total capital assets being depreciated.....	 61,318,928	 1,347,583	 (55,847)	 62,610,664
 <u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(9,688,872)	(1,175,085)	-	(10,863,957)
Machinery, equipment and vehicles.....	(3,550,498)	(316,649)	19,543	(3,847,604)
Infrastructure.....	(1,554,858)	(189,176)	-	(1,744,034)
 Total accumulated depreciation.....	 (14,794,228)	 (1,680,910)	 19,543	 (16,455,595)
 Total capital assets being depreciated, net.....	 46,524,700	 (333,327)	 (36,304)	 46,155,069
 Total governmental activities capital assets, net.....	 \$ 62,828,449	 \$ 2,505,419	 \$ (749,232)	 \$ 64,584,636

<b>Water Enterprise Fund:</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,484,129	\$ -	\$ -	\$ 1,484,129
Construction in progress.....	692,310	72,948	(692,310)	72,948
Total capital assets not being depreciated.....	<u>2,176,439</u>	<u>72,948</u>	<u>(692,310)</u>	<u>1,557,077</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	222,486	-	-	222,486
Machinery, equipment and vehicles.....	440,115	-	-	440,115
Infrastructure.....	19,978,533	817,182	-	20,795,715
Total capital assets being depreciated.....	<u>20,641,134</u>	<u>817,182</u>	<u>-</u>	<u>21,458,316</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(146,843)	(4,450)	-	(151,293)
Machinery, equipment and vehicles.....	(369,040)	(20,316)	-	(389,356)
Infrastructure.....	(8,620,586)	(433,872)	-	(9,054,458)
Total accumulated depreciation.....	<u>(9,136,469)</u>	<u>(458,638)</u>	<u>-</u>	<u>(9,595,107)</u>
Total capital assets being depreciated, net.....	<u>11,504,665</u>	<u>358,544</u>	<u>-</u>	<u>11,863,209</u>
Total water enterprise fund capital assets, net.....	<u>\$ 13,681,104</u>	<u>\$ 431,492</u>	<u>\$ (692,310)</u>	<u>\$ 13,420,286</u>
<b>Sewer Enterprise Fund:</b>				
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 871,907	\$ -	\$ -	\$ 871,907
Construction in progress.....	91,600	154,771	(91,600)	154,771
Total capital assets not being depreciated.....	<u>963,507</u>	<u>154,771</u>	<u>(91,600)</u>	<u>1,026,678</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	47,194	-	-	47,194
Machinery, equipment and vehicles.....	325,216	29,932	-	355,148
Infrastructure.....	13,086,368	317,603	-	13,403,971
Total capital assets being depreciated.....	<u>13,458,778</u>	<u>347,535</u>	<u>-</u>	<u>13,806,313</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(31,152)	(944)	-	(32,096)
Machinery, equipment and vehicles.....	(105,699)	(20,058)	-	(125,757)
Infrastructure.....	(6,671,588)	(250,939)	-	(6,922,527)
Total accumulated depreciation.....	<u>(6,808,439)</u>	<u>(271,941)</u>	<u>-</u>	<u>(7,080,380)</u>
Total capital assets being depreciated, net.....	<u>6,650,339</u>	<u>75,594</u>	<u>-</u>	<u>6,725,933</u>
Total sewer enterprise fund capital assets, net.....	<u>\$ 7,613,846</u>	<u>\$ 230,365</u>	<u>\$ (91,600)</u>	<u>\$ 7,752,611</u>

<b>Municipal Light Enterprise Fund:</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,976	\$ -	\$ -	\$ 22,976
Construction in progress.....	5,878,820	642,714	(5,734,647)	786,887
Total capital assets not being depreciated.....	<u>5,901,796</u>	<u>642,714</u>	<u>(5,734,647)</u>	<u>809,863</u>
<u>Capital assets being depreciated:</u>				
Production plant.....	4,960,301	49,324	-	5,009,625
Transmission plant.....	399,439	1,037,940	-	1,437,379
Distribution plant.....	11,586,872	6,054,869	(401,058)	17,240,683
General plant.....	2,365,388	58,459	(21,986)	2,401,861
Total capital assets being depreciated.....	<u>19,312,000</u>	<u>7,200,592</u>	<u>(423,044)</u>	<u>26,089,548</u>
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,637,352)	(43,479)	-	(4,680,831)
Transmission plant.....	(213,501)	(72,870)	-	(286,371)
Distribution plant.....	(7,555,389)	(770,747)	401,058	(7,925,078)
General plant.....	(1,582,098)	(91,294)	21,986	(1,651,406)
Total capital assets being depreciated.....	<u>(13,988,340)</u>	<u>(978,390)</u>	<u>423,044</u>	<u>(14,543,686)</u>
Total capital assets being depreciated, net.....	<u>5,323,660</u>	<u>6,222,202</u>	<u>-</u>	<u>11,545,862</u>
Total municipal light enterprise fund capital assets, net.....	<u>\$ 11,225,456</u>	<u>\$ 6,864,916</u>	<u>\$ (5,734,647)</u>	<u>\$ 12,355,725</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government.....	\$ 151,853
Public safety.....	142,945
Education.....	989,637
Public works.....	287,891
Human services.....	13,326
Planning and development.....	14,947
Library.....	67,719
Finance.....	10,192
Code enforcement.....	2,400

Total depreciation expense - governmental activities..... \$ 1,680,910

**Business-Type Activities:**

Water.....	\$ 458,638
Sewer.....	271,941
Municipal light.....	978,390

Total depreciation expense - business-type activities..... \$ 1,708,969

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Total
General Fund.....	\$ -	\$ 50,000	\$ 16,894	\$ 66,894 (1)
Nonmajor Governmental Funds...	143,224	-	-	143,224 (2)
Total.....	\$ 143,224	\$ 50,000	\$ 16,894	\$ 210,118

- (1) Represents budgeted transfers from the general fund to a nonmajor special revenue fund to help fund the Town’s 375<sup>th</sup> anniversary celebration (\$50,000); and to the water enterprise fund to fund the Town’s share of computer/GIS debt (\$16,894).
- (2) Represents budgeted transfers to help fund the fiscal year 2010 operating budget from the waterways improvements, tourism development, library grants, insurance recovery and capital stabilization nonmajor special revenue funds.

**NOTE 6 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the governmental short-term debt activity for the fiscal year ended June 30, 2010 is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2010
BAN	Land Acquisition.....	1.25	12/16/09	\$ 525,000	\$ -	\$ 525,000	\$ -
BAN	DPW/Computer.....	1.25	12/16/09	56,000	-	56,000	-
BAN	Equipment.....	1.25	12/16/09	250,000	-	250,000	-
BAN	MBTA Grade Crossing.....	1.25	12/16/09	34,000	-	34,000	-
BAN	Land Acquisition.....	1.20 - 1.50	04/01/10	-	525,000	525,000	-
BAN	DPW/Computer.....	1.20 - 1.50	04/01/10	-	56,000	56,000	-
BAN	Equipment.....	1.20 - 1.50	04/01/10	-	250,000	250,000	-
BAN	MBTA Grade Crossing.....	1.20 - 1.50	04/01/10	-	34,000	34,000	-
BAN	Land Acquisition.....	1.50	10/06/10	-	2,070,000	2,070,000	-
Total.....				\$ 865,000	\$ 2,935,000	\$ 3,800,000	\$ -

Details related to the business-type short-term debt activity for the fiscal year ended June 30, 2010 is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2010
BAN	Water.....	1.25	12/16/09	\$ 893,000	\$ -	\$ 893,000	\$ -
BAN	Water.....	1.20 - 1.50	04/01/10	-	893,000	893,000	-
BAN	Water.....	1.50	10/06/10	-	35,000	-	35,000
Total Water .....				893,000	928,000	1,786,000	35,000
BAN	Wind Turbine.....	1.25	12/16/09	100,000	-	100,000	-
BAN	Wind Turbine.....	1.20 - 1.50	04/01/10	-	100,000	100,000	-
BAN	Wind Turbine.....	1.25	10/06/10	-	800,000	-	800,000
Total Electric.....				100,000	900,000	200,000	800,000
Total Business-Type.....				\$ 993,000	\$ 1,828,000	\$ 1,986,000	\$ 835,000

Subsequent to year end, the Town permanently financed \$2,070,000 in Bond Anticipation Notes outstanding as of June 30, 2010 for land acquisitions. Accordingly, the \$2,070,000 has been reported as a long-term obligation in the accompanying financial statements.

Additionally, subsequent to year end, the Town retired the \$35,000, and \$800,000 Bond Anticipation Notes related to Water and Electric activities, respectively, with the proceeds of new Bond Anticipation Notes, in the same amounts, at 1.25%, which will mature on June 16, 2011.

**NOTE 7 – LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2010 and the debt service requirements are shown as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Library.....	3.95 - 6.25	\$ 920,000	\$ -	\$ 115,000	\$ 805,000
Whipple School Construction.....	3.50 - 4.75	2,525,000	-	225,000	2,300,000
Land Acquisition.....	3.50 - 4.75	2,430,000	-	190,000	2,240,000
Whipple School Design.....	3.50 - 4.65	110,000	-	10,000	100,000
Open Space Land Acquisition.....	2.35 - 4.00	474,000	-	46,000	428,000
Seawall.....	2.35 - 3.40	21,875	-	21,875	-
Bridges.....	2.35 - 3.40	15,000	-	5,000	10,000
School.....	2.35 - 4.00	99,000	-	11,000	88,000
Fire Department Equipment.....	2.75 - 5.00	95,000	-	95,000	-
School Renovations Winthrop.....	2.75 - 5.00	165,000	-	15,000	150,000
Fire Station Repairs.....	2.75 - 5.00	17,000	-	17,000	-
School Renovations.....	2.75 - 5.00	220,000	-	20,000	200,000
School.....	3.50 - 5.00	21,835,000	-	1,585,000	20,250,000
Land Acquisition.....	3.50 - 5.00	225,000	-	25,000	200,000
School Renovations.....	4.00 - 5.00	178,000	-	11,000	167,000
School.....	4.00 - 5.00	530,000	-	30,000	500,000
Bridges.....	4.00 - 4.75	30,000	-	10,000	20,000
Open Space.....	4.00 - 5.00	737,500	-	45,000	692,500
Equipment.....	3.25 - 5.00	255,000	-	30,000	225,000
Library Remodeling.....	3.25 - 5.00	105,000	-	10,000	95,000
Land Acquisition.....	2.00 - 5.00	-	2,595,000	-	2,595,000
DPW Data Network.....	2.00 - 5.00	-	60,300	-	60,300
Equipment.....	2.00 - 5.00	-	577,000	-	577,000
MBTA Crossing.....	2.00	-	68,700	-	68,700
Town Hall Windows.....	2.00 - 5.00	-	50,000	-	50,000
Recreation Bialek Park.....	2.00 - 5.00	-	101,000	-	101,000
Total Governmental.....		\$ 30,987,375	\$ 3,452,000	\$ 2,516,875	\$ 31,922,500

Debt service requirements for principal and interest for governmental bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....\$	2,665,000	\$ 1,262,274	\$ 3,927,274
2012.....	2,803,000	1,252,283	4,055,283
2013.....	2,848,000	1,118,970	3,966,970
2014.....	2,928,000	1,001,298	3,929,298
2015.....	2,953,000	871,322	3,824,322
2016.....	2,988,000	732,972	3,720,972
2017.....	3,093,000	589,604	3,682,604
2018.....	3,087,000	440,700	3,527,700
2019.....	3,095,000	290,948	3,385,948
2020.....	3,200,000	151,533	3,351,533
2021.....	520,000	74,758	594,758
2022.....	380,000	56,683	436,683
2023.....	230,000	45,445	275,445
2024.....	230,000	37,445	267,445
2025.....	230,000	29,445	259,445
2026.....	185,000	21,285	206,285
2027.....	172,500	14,779	187,279
2028.....	105,000	8,531	113,531
2029.....	105,000	5,119	110,119
2030.....	105,000	1,706	106,706
Totals..... \$	<u>31,922,500</u>	<u>\$ 8,007,100</u>	<u>\$ 39,929,600</u>

**Bonds and Notes Payable Schedule – Enterprise Funds**

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
<b>Water Projects</b>					
Water.....	3.50 - 4.25	\$ 30,000	\$ -	\$ 10,000	\$ 20,000
Computer (GIS).....	2.35 - 3.40	33,125	-	33,125	-
Land Acquisition.....	2.35 - 4.00	198,000	-	22,000	176,000
Water.....	2.75 - 5.00	923,000	-	108,000	815,000
Water.....	4.00 - 5.00	810,000	-	45,000	765,000
Water.....	3.25 - 5.00	520,000	-	30,000	490,000
Water.....	2.00 - 5.00	-	893,000	-	893,000
Total Water Enterprise.....		<u>2,514,125</u>	<u>893,000</u>	<u>248,125</u>	<u>3,159,000</u>
<b>Sewer Projects</b>					
Sewer 97-19 (MWPAT).....	Variable	1,025,200	-	95,000	930,200
Sewer.....	3.50 - 4.75	1,060,000	-	85,000	975,000
Sewer Land Acquisition.....	2.35 - 3.40	15,000	-	5,000	10,000
Sewer.....	2.35 - 4.00	99,000	-	11,000	88,000
Sewer.....	2.75 - 5.00	35,000	-	5,000	30,000
Sewer.....	4.00 - 5.00	874,500	-	49,000	825,500
Total Sewer Enterprise.....		<u>3,108,700</u>	<u>-</u>	<u>250,000</u>	<u>2,858,700</u>
<b>Municipal Light Projects</b>					
Electric Sub Station and System Improvements.....	3.25 - 4.10	5,700,000	-	300,000	5,400,000
Electric Sub Station and System Improvements.....	2.00 - 5.00	-	600,000	-	600,000
Total Municipal Light Enterprise.....		<u>5,700,000</u>	<u>600,000</u>	<u>300,000</u>	<u>6,000,000</u>
Total Enterprise Funds.....		<u>\$ 11,322,825</u>	<u>\$ 1,493,000</u>	<u>\$ 798,125</u>	<u>\$ 12,017,700</u>

Debt service requirements for principal and interest for enterprise bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....\$	897,800	\$ 444,782	\$ 1,342,582
2012.....	897,800	417,288	1,315,088
2013.....	830,700	411,395	1,242,095
2014.....	876,800	363,150	1,239,950
2015.....	844,900	333,135	1,178,035
2016.....	843,200	303,931	1,147,131
2017.....	841,600	273,284	1,114,884
2018.....	846,000	236,805	1,082,805
2019.....	811,400	203,345	1,014,745
2020.....	620,000	173,985	793,985
2021.....	560,000	148,010	708,010
2022.....	560,000	125,341	685,341
2023.....	480,000	104,498	584,498
2024.....	480,000	85,479	565,479
2025.....	480,000	66,460	546,460
2026.....	425,000	47,220	472,220
2027.....	397,500	29,695	427,195
2028.....	325,000	13,325	338,325
Totals..... \$	<u>12,017,700</u>	<u>\$ 3,781,128</u>	<u>\$ 15,798,828</u>

The Town has received bonds from the Massachusetts Water Pollution Abatement Trust (MWPAT) for various sewer projects. The remaining scheduled loan repayments, including interest, total \$405,232 at June 30, 2010. The Town is scheduled to be subsidized by the MWPAT on a periodic basis for principal in the amount of \$234,265 and interest costs for \$170,966. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$603,265. The principal subsidies are guaranteed and therefore a \$234,265 intergovernmental receivable has been recorded in the water enterprise fund at June 30, 2010. Since the Town is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2010 principal and interest subsidies totaled \$28,421 and \$26,721, respectively.

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2010, \$1,389,800 of such assistance was received. Approximately \$13,898,000 will be received in future fiscal years. Of this amount, approximately \$5,314,000 represents reimbursement of long-term interest costs, and approximately \$8,584,000 represents reimbursement of approved construction costs. Accordingly, an \$8,584,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The net change in deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2010, the Town had the following authorized and unissued debt:

Purpose	Amount
Wind Turbine.....	\$ 4,242,000
Open Space.....	3,455,000
Wastewater Treatment Plant.....	2,449,500
Street Reconstruction.....	2,000,000
Water Mains.....	1,745,500
Electric Substation.....	900,000
Bridges.....	165,000
Electric.....	136,000
Riverwalk.....	75,000
DPW/Computer.....	44,122
Equipment.....	23,000
Recreation.....	20,231
<b>Total.....</b>	<b>\$ 15,255,353</b>

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 30,987,375	\$ 3,452,000	\$ (2,516,875)	\$ 31,922,500	\$ 2,665,000
Other postemployment benefits....	1,599,340	1,984,352	(609,129)	2,974,563	-
Unamortized premium.....	147,110	-	(147,110)	-	-
Deferred loss on refunding.....	(145,495)	-	145,495	-	-
Compensated absences.....	1,142,656	155,213	(133,333)	1,164,536	792,689
<b>Total governmental activity long-term liabilities.....</b>	<b>\$ 33,730,986</b>	<b>\$ 5,591,565</b>	<b>\$ (3,260,952)</b>	<b>\$ 36,061,599</b>	<b>\$ 3,457,689</b>
<b>Business-Type Activities:</b>					
Bonds and notes payable.....	\$ 11,322,825	\$ 1,493,000	\$ (798,125)	\$ 12,017,700	\$ 897,800
Other postemployment benefits....	141,725	157,351	(50,835)	248,241	-
Compensated absences.....	190,671	31,741	(19,067)	203,345	84,539
<b>Total business-type activity long-term liabilities.....</b>	<b>\$ 11,655,221</b>	<b>\$ 1,682,092</b>	<b>\$ (868,027)</b>	<b>\$ 12,469,286</b>	<b>\$ 982,339</b>

The governmental activities long-term liabilities are generally liquidated by the general fund.

**NOTE 8 – RISK FINANCING**

The Town is exposed to various risks of loss related to tort; theft of, damage to and the destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care and workers' compensation plans for its employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

**NOTE 9 – PENSION PLAN**

**Plan Description** - The Town contributes to the Essex Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled \$2,682,000 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws (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. Cost-of-living adjustments granted after 1997 must be approved by the Essex Regional Retirement Board and are borne by the System. The System issues a publicly available, unaudited, financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 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 System its share of the system-wide actuarially determined contribution that is apportioned among the employers based on annual covered payroll. Chapter 32 of the MGL governs the contributions of plan members and the Town. The Town's contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,797,160, \$1,680,007 and \$1,550,707, respectively, which equaled its required contribution for each fiscal year.

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Town has previously implemented the provisions of GASB Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and during fiscal year 2010 has established its "Other Postemployment Benefit Trust Fund" in accordance with these provisions. The Town voted to begin pre-funding its Other Postemployment Benefit (OPEB) liabilities through the use of this irrevocable trust.

**Plan Description** – The Town of Ipswich administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides health, dental and life insurance for eligible retirees and their spouses through a single-employer defined Other Postemployment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – The contribution requirements of plan members and the Town are established and may be amended by the Town. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 50 percent of the cost of current-year premiums for health and life insurance for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs for health and life insurance and all of the premiums related to dental insurance. For fiscal year 2010, the Town’s age-adjusted contribution to the plan totaled \$659,964, and member contributions totaled approximately \$580,000.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the postemployment benefit trust fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities. During fiscal year 2010, the Town pre-funded future OPEB liabilities in the amount of approximately \$56,000.

*Annual OPEB Cost and Net OPEB Obligation* – The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Normal cost.....	\$ 1,049,450
Amortization of unfunded actuarial accrued liability.....	1,121,178
Interest on net OPEB obligation.....	69,645
Adjustments to annual required contribution.....	<u>(98,570)</u>
Annual OPEB cost (expense).....	2,141,703
Contributions made.....	<u>(659,964)</u>
Increase in net OPEB obligation.....	1,481,739
Net OPEB obligation - beginning of year.....	<u>1,741,065</u>
Net OPEB obligation - end of year.....	<u><u>\$ 3,222,804</u></u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2010	\$ 2,141,703	30.8%	\$ 3,222,804

*Funded Status and Funding Progress* – As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$23,930,595, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) totaled \$23,032,308, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll totaled 103.9 percent.

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

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

In the July 1, 2009, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend ranging from 5.0% to 9.0% and included a 4.5% inflation assumption. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2010 is 28 years.

#### **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2010, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

#### **NOTE 12 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #51, *Accounting and Financial Reporting for Intangible Assets*. This standard did not impact the basic financial statements.
- The GASB issued Statement #53, *Accounting and Financial Reporting for Derivative Instruments*. This standard did not impact the basic financial statements.

- The GASB issued Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The standards in this statement permits an agent employer that has an individual employer OPEB plan with fewer than 100 members to use an alternative measurement method to produce actuarially based information for purposes of financial reporting, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #59, *Financial Instruments Omnibus*, which is required to be implemented in fiscal year 2011. Management has elected to implement this standard early and this standard did not impact the basic financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

***Notes to Basic Financial Statements –  
Ipswich Municipal Light Department***

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****1. Reporting Entity**

The Ipswich Municipal Light Department (the “Department”) is a department of the Town of Ipswich, Massachusetts (the “Town”) and is reported as an enterprise (proprietary) fund in the Town’s basic financial statements. The Department is governed by the Ipswich Municipal Light Commissioners (the “Commissioners”) who appoint a manager of municipal lighting who shall, under the direction of the Commissioners, have full charge of the operation and management of the Department.

**2. Regulation, Rates, and Basis of Accounting**

The Department is under the charge and control of the Commissioners in accordance with Chapter 164, Section 55 of the Massachusetts General Laws (MGL). Electric rates may be changed once every three months. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU), formally know as the Department of Telecommunications and Energy. While the DPU exercises general supervisory authority over the Department, rates are not subject to DPU approval. Pursuant to Chapter 164, Section 58 of the MGL, rates must be set such that annual net earnings from operations do not exceed 8% of the cost of the utility plant after repayment of operating expenses, interest on outstanding debt, the requirements of any serial debt and depreciation. Excess revenues are required to be refunded to the customers.

The Department uses the economic resources measurement focus and the accrual basic of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Department applies all Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**3. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**4. Utility Plant**

The statutory provision for depreciation of the utility plant is computed on the straight-line method at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore no depreciation is taken in the year of Plant additions. MGL stipulates that the Department may change from the statutory depreciation rate up to 5% only with the approval of the DPU. The Department has been granted such approval and has used the rate of 5% since 2000. Overall, these rates of depreciation approximate GAAP.

Pursuant to MGL, cash is transferred to the Depreciation Fund in an amount equal to the annual provision for depreciation. The Depreciation Fund may only be used for replacements, additions to the utility plant in service and related debt service.

Costs related to issuance of bonds to finance utility plant have been capitalized and are being amortized over the life of the bonds.

### 5. Cash and Cash Equivalents

For purpose of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

### 6. Revenues

Revenues from the sale of electricity are recorded on the basis of bills rendered from monthly meter readings. The revenues are based on rates established by the Department, which are applied to customers' consumption of electricity.

### 7. Inventory

Materials, supplies and fuel oil inventory are carried at cost, determined by the first-in, first-out method.

### 8. Provision for Payment to the Town of Ipswich in Lieu of Taxes

The Department contributed \$265,991 to the Town of Ipswich in lieu of taxes. All contributions to the Town are voted by the Commissioners.

### 9. Purchased Power Working Capital and Prepayments

Purchased power working capital is a deposit held by the Department's power supplier, Massachusetts Municipal Wholesale Electric Company (MMWEC). A fixed amount of working capital based on the Department's annual power purchases is required to be held on deposit with MMWEC for the purpose of paying the Department's power obligations as they become due. Working capital on deposit with MMWEC is replenished monthly. A credit for interest earned on deposits is applied to monthly billings and is recorded as revenue. Working capital on deposit with MMWEC at June 30, 2010 totaled \$2,132,809.

In addition to the working capital deposit the Department also has made other power supply related prepayments totaling approximately \$676,000.

### 10. Deferred Charges

The Department has a fuel cost adjustment clause pursuant to which increased fuel costs (fuel costs in excess of amounts recovered through base rates) are billable to customers. The Department records estimated unbilled fuel adjustment charge revenue at the end of accounting periods. Unbilled fuel costs total \$73,381 at June 30, 2010.

The Department has recorded a deferred charge related to one environmental remediation liability. This amount totals \$10,000 at June 30, 2010 (see Note J).

## **NOTE B – DEPOSITS**

The Department's operating cash is deposited with the Town's Treasurer who commingles it with other Town funds. The Town Treasurer maintains separate bank accounts for the Department's Depreciation Fund, Rate Stabilization Fund, Customer Deposits payable, and the Conservation Fund.

The municipal finance laws of the commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with

maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and state treasurer’s investment pool – the Massachusetts Municipal Depository Trust (MMDT).

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town’s deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2010, the Department’s bank balance was covered by Federal Depository Insurance and by the Depositors Insurance Fund.

**NOTE C – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,976	\$ -	\$ -	\$ 22,976
Construction in progress.....	5,878,820	642,714	(5,734,647)	786,887
Total capital assets not being depreciated.....	5,901,796	642,714	(5,734,647)	809,863
<u>Capital assets being depreciated:</u>				
Production plant.....	4,960,301	49,324	-	5,009,625
Transmission plant.....	399,439	1,037,940	-	1,437,379
Distribution plant.....	11,586,872	6,054,869	(401,058)	17,240,683
General plant.....	2,365,388	58,459	(21,986)	2,401,861
Total capital assets being depreciated.....	19,312,000	7,200,592	(423,044)	26,089,548
<u>Less accumulated depreciation for:</u>				
Production plant.....	(4,637,352)	(43,479)	-	(4,680,831)
Transmission plant.....	(213,501)	(72,870)	-	(286,371)
Distribution plant.....	(7,555,389)	(770,747)	401,058	(7,925,078)
General plant.....	(1,582,098)	(91,294)	21,986	(1,651,406)
Total capital assets being depreciated.....	(13,988,340)	(978,390)	423,044	(14,543,686)
Total capital assets being depreciated, net.....	5,323,660	6,222,202	-	11,545,862
Total municipal light enterprise fund capital assets, net.....	\$ 11,225,456	\$ 6,864,916	\$ (5,734,647)	\$ 12,355,725

**NOTE D – DEPRECIATION FUND**

Pursuant to the provisions of the MGL, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the Commissioners determine are above market value.

On December 15, 2003, the Commissioners voted to transfer funds, in an amount not to exceed \$625,000 during the fiscal years 2003 through 2006, from the rate stabilization fund to the depreciation fund. The entire \$625,000 was transferred during the year ended December 31, 2004. These funds were used for upgrades to the utility plant. The transfer was treated as an internal loan that must be repaid over a 10 year period that began in fiscal year 2005. Interest on the loan is being calculated based on the interest rate of the rate stabilization fund investment. The interest on the loan is reclassified between the operating funds and rate stabilization funds and therefore is not expensed by the Department. The outstanding principal balance of this internal loan totaled \$281,250 at June 30, 2010.

On January 24, 2005, the Commissioners voted to transfer \$715,000 from the rate stabilization fund to the depreciation fund. These funds were used for upgrades to the utility plant. The transfer was treated as an internal loan that must be repaid over a 10 year period that began in fiscal year 2007. Interest on the loan is being calculated based on the interest rate of the rate stabilization fund investment. The interest on the loan is reclassified between the operating funds and the rate stabilization funds and therefore is not expensed by the Department. The outstanding principal balance of this internal loan totaled \$393,250 at June 30, 2010.

#### **NOTE E – RATE STABILIZATION FUND**

The Department has established a stabilization fund for the purpose of minimizing exposure to rate fluctuations. Additionally, the fund may be used to help the Department maintain a competitive position in the marketplace or for other unexpected costs. The balance of the fund at June 30, 2010 was \$1,625,120 and is reported as restricted net assets in the Statement of Fund Net Assets. This amount will differ from the cash balance of the rate stabilization fund as a result of the loans described in Note D.

#### **NOTE F – PENSION PLAN**

Employees of the Department participate in the Essex Regional Retirement System (the System) through the Town. The Town allocates a portion of its obligation to the Department based on the relative number of participants and the amount of payroll. Total contributions by the department to the system totaled approximately \$140,000 for the year ended June 30, 2010, which represents approximately 7.78% of the System's assessment to the Town.

**NOTE G – SHORT-TERM FINANCING**

Details related to the short-term debt activity for the fiscal year ended June 30, 2010 are as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2009	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2010
BAN	Wind Turbine.....	1.25	12/16/09	\$ 100,000	\$ -	\$ 100,000	\$ -
BAN	Wind Turbine.....	1.20 - 1.50	04/01/10	-	100,000	100,000	-
BAN	Wind Turbine.....	1.25	10/06/10	-	800,000	-	800,000
				<u>\$ 100,000</u>	<u>\$ 900,000</u>	<u>\$ 200,000</u>	<u>\$ 800,000</u>

**NOTE H – LONG TERM DEBT**

Details relating to the outstanding indebtedness at June 30, 2010 are as follows:

	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Electric Sub Station and System Improvements.....	3.25 - 4.10	\$ 5,700,000	\$ -	\$ 300,000	\$ 5,400,000
Electric Sub Station and System Improvements.....	2.00 - 5.00	-	600,000	-	600,000
Total Bonds Payable.....		<u>\$ 5,700,000</u>	<u>\$ 600,000</u>	<u>\$ 300,000</u>	<u>\$ 6,000,000</u>

Debt service requirements for principal and interest for the Department’s bonds payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....\$	340,000	\$ 213,150	\$ 553,150
2012.....	340,000	203,400	543,400
2013.....	340,000	194,400	534,400
2014.....	340,000	183,900	523,900
2015.....	340,000	173,400	513,400
2016.....	340,000	162,900	502,900
2017.....	340,000	150,900	490,900
2018.....	340,000	135,900	475,900
2019.....	340,000	120,900	460,900
2020.....	340,000	108,900	448,900
2021.....	340,000	96,900	436,900
2022.....	340,000	84,900	424,900
2023.....	340,000	72,900	412,900
2024.....	340,000	60,900	400,900
2025.....	340,000	48,900	388,900
2026.....	300,000	36,900	336,900
2027.....	300,000	24,600	324,600
2028.....	300,000	12,300	312,300
Totals..... \$	<u>6,000,000</u>	<u>\$ 2,086,050</u>	<u>\$ 8,086,050</u>

**NOTE I – RELATED PARTY TRANSACTIONS**

The Department pays the Town annually an amount equal to one-fourth of one cent of total kilowatts hours billed in lieu of taxes. In addition to the in-lieu of tax payment the Department subsidizes the cost of street lighting to the Town. Additionally, the Town allocates expenses to the Department for various services during the year and the Department provides services and materials to the Town without reimbursement. Amounts included in expenses for the fiscal year ended June 30, 2010 under these arrangements are as follows:

Payment in lieu of taxes.....	\$ 265,991
Subsidized street lighting.....	38,998
Town salaries paid by the Department.....	52,073
Non-reimbursed services and materials provided to the Town.....	<u>44,958</u>
Total.....	<u>\$ 402,020</u>

The Department bills Town departments for electric light usage. The amount included in revenue under this arrangement was \$674,416 for the fiscal year ended June 30, 2010. Accounts receivable from these departments totaled \$14,594 at June 30, 2010.

The Ipswich Water Department (the Water Department) shares office space in the Department’s building. Costs are not billed to the Water Department. Management has determined that the associated expenses are not significant and, therefore, has not assessed the Water Department a fee for such services.

**NOTE J – ENVIRONMENTAL REMEDIATION**

The Department is required to clean up hazardous materials located at the Ipswich Power Plant (the “Plant”). The clean up is in response to the presence of petroleum related contaminants in soil and groundwater beneath the Plant building and the surrounding property.

Since January 2008, subsurface investigations including soil sampling and groundwater monitoring have been used to identify the extent of the contamination and develop a long-term approach in no additional response actions.

In the prior year, the total estimated clean up cost (as determined by an independent environmental consultant) was estimated to be between \$98,000 and \$154,000. The Department had recorded a liability of \$160,000 to reflect this estimate.

The estimated costs were reevaluated (by an independent environmental consultant) at June 30, 2010, and current estimates range between \$59,000 and \$70,000 for the initial phase of the clean up. The Department has identified additional work that may be required and has recorded a liability of \$160,000 to reflect the estimated total cost of the clean up project.

**NOTE K – MMWEC PARTICIPATION**

The Town, acting through the Department, is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its *pro rata* share of MMWEC’s costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC’s debt service to be paid into a Reserve and contingency fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of the Project may be required to increase (step-up) their payments and correspondingly their Participants’ share of that Project’s Project Capability to an additional amount not to exceed 25% of their original Participants’ share of that Project’s Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

The Department has entered into PSAs and Purchase Power Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

**NOTE L – COMMITMENTS AND CONTINGENCIES**

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is owned and operated by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC), and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook LLC), the majority owner and an indirect subsidiary of NextEra Energy Resources LLC (formerly FPL Energy LLC). The operating license for Seabrook Station extends to March, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

After the July 1, 2010 principal payment total capital expenditures for MMWEC's Projects amounted to \$1,574,094,000, of which \$12,603,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$502,245,000, of which \$4,261,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. After the July 1, 2010 principal payment MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$532,190,000, of which \$4,360,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of the Department’s required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2010 and estimated for future years is shown below:

For Years Ended June 30,	Annual Costs
2011.....	\$ 744,000
2012.....	740,000
2013.....	747,000
2014.....	671,000
2015.....	538,000
2016 to 2019.....	<u>920,000</u>
Total.....	<u>\$ 4,360,000</u>

In addition, under the PSA’s, the Department is required to pay to MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department’s total O&M costs including debt service under the PSAs were \$1,649,000 and \$1,634,000 for the years ended June 30, 2010 and 2009, respectively.

# ***Required Supplementary Information***

# ***General Fund Budgetary Comparison Schedule***

The General Fund is the general operating fund of the Town. It is used to account for all of the Town's financial resources, except those required to be accounted for in another fund.

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 27,993,852	\$ 27,841,439	\$ 27,995,433	\$ -	\$ 153,994
Tax liens.....	-	-	127,093	-	127,093
Motor vehicle and other excise taxes.....	1,512,000	1,512,000	1,620,701	-	108,701
Charges for services.....	38,000	38,000	27,644	-	(10,356)
Penalties and interest on taxes.....	134,147	134,147	151,416	-	17,269
Payments in lieu of taxes.....	377,000	377,000	400,671	-	23,671
Licenses and permits.....	531,000	531,000	650,846	-	119,846
Fines and forfeitures.....	54,000	54,000	53,285	-	(715)
Intergovernmental.....	5,691,760	5,691,760	5,813,034	-	121,274
Departmental and other.....	327,465	327,465	316,616	-	(10,849)
Investment income.....	125,000	125,000	63,752	-	(61,248)
Other.....	31,800	31,800	213,275	-	181,475
<b>TOTAL REVENUES.....</b>	<b>36,816,024</b>	<b>36,663,611</b>	<b>37,433,766</b>	<b>-</b>	<b>770,155</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	340,131	463,988	412,651	16,459	34,878
Finance.....	1,017,096	1,060,486	1,036,820	10,384	13,282
Planning and development.....	245,288	245,329	232,608	6,674	6,047
Public safety.....	3,982,515	4,063,812	4,007,419	40,152	16,241
Education.....	20,144,711	19,980,624	19,771,170	206,115	3,339
Public works.....	4,140,399	4,164,527	3,720,407	389,929	54,191
Code enforcement.....	397,421	411,405	407,153	-	4,252
Human services.....	371,607	397,515	371,453	5,000	21,062
Library.....	511,994	510,871	510,689	-	182
Employee benefits.....	1,828,203	2,002,031	1,953,301	21,214	27,516
Property and liability insurance.....	255,889	174,210	161,615	8,953	3,642
Miscellaneous.....	149,018	119,317	96,629	-	22,688
State and county charges.....	737,780	737,780	739,100	-	(1,320)
Debt service:					
Principal.....	2,520,089	2,516,875	2,516,875	-	-
Interest.....	1,434,315	1,434,345	1,339,405	94,937	3
<b>TOTAL EXPENDITURES.....</b>	<b>38,076,456</b>	<b>38,283,115</b>	<b>37,277,295</b>	<b>799,817</b>	<b>206,003</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(1,260,432)</b>	<b>(1,619,504)</b>	<b>156,471</b>	<b>(799,817)</b>	<b>976,158</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	103,029	143,224	143,224	-	-
Transfers out.....	(66,894)	(66,894)	(66,894)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>36,135</b>	<b>76,330</b>	<b>76,330</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,224,297)</b>	<b>(1,543,174)</b>	<b>232,801</b>	<b>(799,817)</b>	<b>976,158</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>2,799,566</b>	<b>2,799,566</b>	<b>2,799,566</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 1,575,269</b>	<b>\$ 1,256,392</b>	<b>\$ 3,032,367</b>	<b>\$ (799,817)</b>	<b>\$ 976,158</b>

See notes to required supplementary information.

# ***Retirement System Schedules***

The Retirement System Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the District is one participating employer, as well as the District's proportionate share of the plan's annual contributions.

**ESSEX REGIONAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a 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%
01/01/06	261,327,047	375,593,562	114,266,515	69.6%	98,641,094	115.8%
01/01/04	229,852,971	333,396,222	103,543,251	68.9%	93,404,002	110.9%
01/01/02	218,346,198	287,390,715	69,044,517	76.0%	85,005,338	81.2%
01/01/00	190,363,700	253,847,100	63,483,400	75.0%	69,525,900	91.3%
01/01/99	180,034,700	268,386,000	88,351,300	67.1%	89,645,300	98.6%
01/01/98	151,293,900	245,965,100	94,671,200	61.5%	85,785,000	110.4%
01/01/96	106,176,700	200,397,500	94,220,800	53.0%	72,953,200	129.2%
01/01/94	80,878,500	178,256,800	97,378,300	45.4%	62,076,500	156.9%
01/01/92	61,357,800	143,785,900	82,428,100	42.7%	52,995,500	155.5%

The Town's share of the UAAL, as of January 1, 2010, is approximately 10.18%.

See notes to required supplementary information.

**ESSEX REGIONAL RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended June 30	System Wide			Town of Ipswich	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2010	\$ 17,648,430	\$ 17,648,430	100%	\$ 1,797,160	10.18%
2009	16,326,599	16,326,599	100%	1,680,007	10.29%
2008	15,623,540	15,623,540	100%	1,550,707	9.93%
2007	15,788,864	15,788,864	100%	1,439,042	9.11%
2006	16,622,274	16,622,274	100%	1,380,330	8.30%
2005	13,080,011	13,080,011	100%	1,169,516	8.94%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

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**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2009	\$ -	\$ 23,930,595	\$ 23,930,595	0%	\$ 23,032,308	103.9%
7/1/2007	-	20,162,942	20,162,942	0%	20,463,394	98.5%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2010	\$ 2,170,628	\$ 659,964	30%
2009	2,290,951	549,886	24%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2009
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Level dollar
Remaining amortization period.....	29 years as of July 1, 2009

Actuarial Assumptions:

Investment rate of return.....	4.0%, pay-as-you-go scenario
Medical/drug cost trend rate.....	Medical ranging from 5.0% to 9.0% and dental ranging from 5.0% to 7.5%

Plan Membership:

Current retirees, beneficiaries, and dependents...	159
Current active members.....	<u>453</u>
 Total.....	 <u><u>612</u></u>

See notes to required supplementary information.

**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires majority Town Meeting approval via a Special Town Meeting.

The majority of the Town's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2010 budget includes \$37,230,000 in appropriations and other amounts to be raised and \$764,000 in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2010, Town Meeting approved supplemental appropriations totaling \$1,120,000.

The Finance office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2010, is presented below:

Net change in fund balance, budgetary basis.....	\$	232,801
<u>Basis of accounting differences:</u>		
Net increase in revenues due to on-behalf payments.....		(2,682,000)
Net increase in recording expenditures due to on-behalf payments.....		<u>2,682,000</u>
Net change in fund balance, GAAP basis.....	\$	<u>232,801</u>

3. Appropriation Deficits

Expenditures exceeded appropriations in state and county charges which is a legal deficit created solely by the Commonwealth and not under the control of the Town. This deficit will be funded in fiscal 2011 via the tax levy.

**NOTE B – PENSION PLAN**

The Town contributes to the Essex Regional Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Essex Regional Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the Retirement System its share of the systemwide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date.....	January 1, 2008
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	20 years remaining as of July 1, 2008, closed
Asset Valuation Method.....	20% of the difference between the market value of assets and the preliminary actuarial value is added to the preliminary actuarial value and must be within 20% of market value of the assets.

Actuarial Assumptions:

Investment rate of return.....	8.50%
Projected salary increases.....	5.00%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	1,568
Terminated participants entitled to a return of their employee contributions.....	880
Terminated participants with a vested right to a deferred or immediate benefit.....	65
Active participants.....	<u>3,139</u>
Total.....	<u><u>5,652</u></u>

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The Town administers a single-employer defined benefit healthcare plan (“The Retiree Health Plan”). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members, including teachers.

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

***Additional Information –  
Municipal Light Enterprise Fund  
Schedules***

**MUNICIPAL LIGHT ENTERPRISE FUND**  
**COMPARATIVE SCHEDULE OF FUND NET ASSETS**

JUNE 30, 2010 AND 2009

	2010	2009
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 1,300,366	\$ 1,193,395
Restricted cash and cash equivalents.....	428,686	663,651
Receivables, net of allowance for uncollectibles:		
User fees.....	1,715,326	1,451,830
Purchased power working capital and prepayments.....	2,808,916	2,804,306
Deferred Charges.....	83,381	91,995
Inventory.....	141,018	163,079
Total current assets.....	6,477,693	6,368,256
NONCURRENT:		
Restricted cash and cash equivalents.....	1,005,801	868,019
Capital assets, net of accumulated depreciation.....		
Nondepreciable.....	809,863	5,901,796
Depreciable.....	11,545,862	5,323,660
Total noncurrent assets.....	13,361,526	12,093,475
TOTAL ASSETS.....	19,839,219	18,461,731
<b>LIABILITIES</b>		
CURRENT:		
Accounts payable.....	1,783,936	1,468,434
Accrued payroll.....	38,725	38,361
Accrued interest.....	25,294	18,575
Customer deposits payable.....	75,181	81,741
Other liabilities.....	990,916	985,680
Compensated absences.....	8,832	8,621
Bonds and notes payable.....	1,140,000	400,000
Total current liabilities.....	4,062,884	3,001,412
NONCURRENT:		
Environmental remediation liabilities.....	160,000	160,000
Compensated absences.....	79,493	77,588
Other postemployment benefits.....	119,849	80,329
Bonds and notes payable.....	5,660,000	5,400,000
Total noncurrent liabilities.....	6,019,342	5,717,917
TOTAL LIABILITIES.....	10,082,226	8,719,329
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt.....	5,555,725	5,425,456
Restricted for:		
Rate stabilization.....	1,625,120	1,600,778
Depreciation.....	280,150	89,479
Unrestricted.....	2,295,998	2,626,689
TOTAL NET ASSETS.....	\$ 9,756,993	\$ 9,742,402

**MUNICIPAL LIGHT ENTERPRISE FUND**  
 COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
<b><u>OPERATING REVENUES:</u></b>		
Charges for services .....	\$ 13,885,846	\$ 14,092,598
Other.....	59,010	21,896
<b>TOTAL OPERATING REVENUES .....</b>	<b>13,944,856</b>	<b>14,114,494</b>
<b><u>OPERATING EXPENSES:</u></b>		
Cost of services and administration .....	12,761,879	12,917,607
Depreciation.....	978,390	945,981
<b>TOTAL OPERATING EXPENSES .....</b>	<b>13,740,269</b>	<b>13,863,588</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>204,587</b>	<b>250,906</b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>		
Investment income.....	27,820	175,354
Interest expense.....	(217,816)	(112,116)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(189,996)</b>	<b>63,238</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>14,591</b>	<b>314,144</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>9,742,402</b>	<b>9,428,258</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 9,756,993</b>	<b>\$ 9,742,402</b>

**MUNICIPAL LIGHT ENTERPRISE FUND**  
**COMPARATIVE SCHEDULE OF SALES OF ELECTRICITY**

FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

<u>SALES OF ELECTRICITY:</u>	<u>2010</u>	<u>2009</u>
Residential.....	\$ 6,273,557	\$ 6,294,583
Commercial.....	706,075	742,126
Industrial.....	6,202,312	6,326,328
Municipal.....	608,776	634,313
Private Lighting.....	29,486	29,608
Street Lights.....	<u>65,640</u>	<u>65,640</u>
<b>TOTAL SALES OF ELECTRICITY.....</b>	<b>\$ <u>13,885,846</u></b>	<b>\$ <u>14,092,598</u></b>

**MUNICIPAL LIGHT ENTERPRISE FUND**  
**COMPARATIVE SCHEDULE OF COST OF SERVICE AND ADMINISTRATION**

FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
<u>Power Production Expenses:</u>		
Purchased power.....	\$ 10,316,738	\$ 10,427,605
Other power expenses.....	410,193	461,575
 Total Power Production Expenses.....	 10,726,931	 10,889,180
<u>Distribution Expenses:</u>		
Station expenses.....	9,266	1,803
Customer installation expenses.....	29,015	25,084
Miscellaneous distribution expense.....	135,585	165,745
Maintenance of overhead lines.....	610,567	582,001
Maintenance of street lights and signal systems.....	1,564	4,185
 Total Distribution Expenses.....	 785,997	 778,818
<u>Customer Account Expenses:</u>		
Customer records and collection.....	132,339	134,070
Uncollectible accounts.....	27,705	25,822
 Total Customer Account Expenses.....	 160,044	 159,892
<u>Administrative and General Expenses:</u>		
Payments in lieu of taxes.....	265,991	265,652
Administrative and general salaries.....	376,778	308,056
Office supplies and expenses.....	77,081	79,912
Outside services.....	104,976	110,211
Property and general insurance.....	62,468	66,680
Employee's pensions and benefits.....	150,023	211,848
Miscellaneous general expense.....	51,590	47,360
 Total Administrative and General Expenses.....	 1,088,907	 1,089,719
 TOTAL OPERATION AND MAINTENANCE EXPENSES... \$	 <u>12,761,879</u>	 <u>\$ 12,917,609</u>