

TOWN OF LYNNFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Lynnfield, 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 Lynnfield, Massachusetts, as of and for the year ended June 30, 2009 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 Lynnfield's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lynnfield, as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages and the supplementary information appearing on page 44, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Lynnfield, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2009.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for the Town's Golf Course operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Golf Course operation, which is considered to be a major fund.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 57,828,358 (i.e., net assets), a change of \$ (4,354,024) in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$ 6,214,644, a change of \$ (1,681,677) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 530,585, a change of \$ (285,002) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 31,940,976, a change of \$ 5,839,900 in comparison with the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 8,540	\$ 9,970	\$ 302	\$ 146	\$ 8,842	\$ 10,116
Capital assets	<u>75,686</u>	<u>76,204</u>	<u>12,114</u>	<u>12,090</u>	<u>87,800</u>	<u>88,294</u>
Total assets	84,226	86,174	12,416	12,236	96,642	98,410
Long-term liabilities outstanding	24,645	21,835	9,571	2,765	34,216	24,600
Other liabilities	<u>4,020</u>	<u>3,736</u>	<u>578</u>	<u>7,892</u>	<u>4,598</u>	<u>11,628</u>
Total liabilities	<u>28,665</u>	<u>25,571</u>	<u>10,149</u>	<u>10,657</u>	<u>38,814</u>	<u>36,228</u>
Net assets:						
Invested in capital assets, net	53,935	53,235	2,152	1,733	56,087	54,968
Restricted	4,386	5,700	10	-	4,396	5,700
Unrestricted	(2,760)	<u>1,668</u>	<u>105</u>	(154)	(2,655)	<u>1,514</u>
Total net assets	<u>\$ 55,561</u>	<u>\$ 60,603</u>	<u>\$ 2,267</u>	<u>\$ 1,579</u>	<u>\$ 57,828</u>	<u>\$ 62,182</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,156	\$ 3,224	\$ 918	\$ 686	\$ 4,074	\$ 3,910
Operating grants and contributions	9,488	8,623	-	-	9,488	8,623
Capital grants and contributions	626	802	-	-	626	802
General revenues:						
Property taxes	27,667	25,070	-	-	27,667	25,070
Excises	1,889	2,073	-	-	1,889	2,073
Penalties and interest on taxes	421	374	-	-	421	374
Grants and contributions not restricted to specific programs	1,350	1,583	-	-	1,350	1,583
Investment income	45	185	4	7	49	192
Other	<u>981</u>	<u>634</u>	<u>63</u>	<u>-</u>	<u>1,044</u>	<u>634</u>
Total revenues	<u>45,623</u>	<u>42,568</u>	<u>985</u>	<u>693</u>	<u>46,608</u>	<u>43,261</u>
Expenses:						
General government	1,719	1,946	-	-	1,719	1,946
Public safety	4,024	4,112	-	-	4,024	4,112
Education	27,423	25,787	-	-	27,423	25,787
Public works	5,662	5,543	-	-	5,662	5,543
Health & human services	513	372	-	-	513	372
Culture and recreation	811	732	-	-	811	732
Employee benefits	8,462	4,054	-	-	8,462	4,054
Interest on long-term debt	993	967	-	-	993	967
Intergovernmental	290	294	-	-	290	294
Golf course	-	-	1,074	873	1,074	873
Total expenses	<u>49,897</u>	<u>43,807</u>	<u>1,074</u>	<u>873</u>	<u>50,971</u>	<u>44,680</u>
Change in net assets before transfers and permanent fund contributions	(4,274)	(1,239)	(89)	(180)	(4,363)	(1,419)
Transfers in (out)	(777)	(850)	777	850	-	-
Permanent fund contributions	<u>9</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>26</u>
Change in net assets	(5,042)	(2,063)	688	670	(4,354)	(1,393)
Net assets - beginning of year	<u>60,603</u>	<u>62,666</u>	<u>1,579</u>	<u>909</u>	<u>62,182</u>	<u>63,575</u>
Net assets - end of year	<u>\$ 55,561</u>	<u>\$ 60,603</u>	<u>\$ 2,267</u>	<u>\$ 1,579</u>	<u>\$ 57,828</u>	<u>\$ 62,182</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 57,828,358, a change of \$ (4,354,024) from the prior year.

The largest portion of net assets, \$ 56,086,121, reflects our investment in capital assets (e.g., land and construction in progress, buildings and improvements, machinery, equipment and furnishings), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services

to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 4,396,149 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$ (2,653,912).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (5,042,090). Key elements of this change are as follows:

- General fund change in fund balance of \$ (190,742), which is discussed further in Section D.
- EMS fund change of \$ 53,702 (accrual basis).
- Stabilization fund change of \$ 390,548.
- Nonmajor funds change of \$ (1,300,906) (accrual basis).
- General fund capital additions of \$ 1,303,563.
- Depreciation expense in excess of principal debt expense of \$ (1,155,612).
- Other postemployment benefit expense of \$ (4,249,917).
- Other revenue and expense accruals of \$ 107,274.

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 688,066. Key elements of this change are as follows:

Golf Course operations	\$ <u>688,066</u>
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D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported a combined ending fund balance of \$ 6,214,644, a change of \$ (1,681,677) in comparison with the prior year. Key elements of this change are as follows:

- General fund change in fund balance of \$ (190,742), which is discussed further in the general fund paragraphs below.
- EMS fund change in fund balance of \$ 45,266.
- Stabilization fund change in fund balance of \$ 390,548.
- Nonmajor funds change in fund balance of \$ (1,926,749).

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 530,585, while total fund balance was \$ 1,649,194. 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 1.3 percent of total general fund expenditures, while total fund balance represents 3.9 percent of that same amount.

The fund balance of the general fund changed by \$ (190,742) during the current fiscal year. Key factors in this change are as follows:

- Use of fund balance (free cash and overlay surplus) of \$ (436,362).
- Non-property tax revenues less than budget by \$ (165,814).
- Actual property tax collections less than budget by \$ (194,395).
- Actual expenditures less than budget by \$ 780,275.
- Other adjustments of \$ (174,446).

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Golf Course enterprise fund at the end of the year amounted to \$ 105,574, a change of \$ 259,175 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 209,718. Major reasons for this change include:

- \$ (125,000) reduction in local revenue budget.
- \$ (126,134) reduction in intergovernmental revenue budget.
- \$ 70,000 reduction in fiscal 2009 overlay budget.
- \$ 260,852 use of fund balance (free cash) to fund local and intergovernmental revenue shortfalls.
- \$ 130,000 transfer from the Golf Course enterprise fund.

The budget and actual statement reflects an under collection of Intergovernmental revenue, primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) Grant, which is reported as a separate major fund in accordance with the transparency requirements of the Act. The general fund Intergovernmental revenue shortfall is offset by budgetary turnbacks in Education expenditures. The turnbacks result from the Town transferring costs from the General Fund to the ARRA major fund, as required by the Commonwealth.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 87,799,799 (net of accumulated depreciation), a change of \$ (494,218) from the prior year. This investment in capital assets includes land and construction in progress, buildings and improvements, machinery, equipment and furnishings, and infrastructure assets.

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

- \$ 752,500 for the purchase of an aerial fire truck.
- \$ 506,010 for public safety vehicles and equipment, including dispatch communications equipment upgrades, fire vehicle exhaust system upgrades, and four new police vehicles.
- \$ 425,698 for various road and sidewalk improvements.
- \$ 285,650 for various building improvements and construction in progress, including the Town Hall and Fire Station roof replacement projects.
- \$ 290,540 for multiple school computers and servers.
- \$ 275,480 for various departmental machinery, equipment and furnishings, including a school bus, highway dump truck with plow, new voting machines, and a library circulation desk.
- Total current year depreciation expense of \$ (3,030,096).

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 31,940,976, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Lynnfield's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of Town Accountant
Town of Lynnfield, Massachusetts
55 Summer Street
Lynnfield, Massachusetts 01940

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 7,296,424	\$ 302,417	\$ 7,598,841
Receivables, net of allowance for uncollectibles:			
Property taxes	582,617	-	582,617
Excises	107,495	-	107,495
Intergovernmental	370,276	-	370,276
User fees	84,000	-	84,000
Betterments	3,009	-	3,009
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	68,439	-	68,439
Betterments	27,842	-	27,842
Land and construction in progress	6,466,278	11,643,093	18,109,371
Capital assets, net of accumulated depreciation	<u>69,220,101</u>	<u>470,327</u>	<u>69,690,428</u>
TOTAL ASSETS	84,226,481	12,415,837	96,642,318
LIABILITIES			
Current:			
Warrants and accounts payable	541,462	12,367	553,829
Deferred revenues	30,851	-	30,851
Accrued liabilities	1,072,289	111,526	1,183,815
Notes payable	149,937	-	149,937
Other current liabilities	216,277	-	216,277
Current portion of long-term liabilities:			
Bonds payable	1,856,100	454,000	2,310,100
Other liabilities	153,638	-	153,638
Noncurrent:			
Bonds payable, net of current portion	20,059,876	9,571,000	29,630,876
Other liabilities	<u>4,584,637</u>	<u>-</u>	<u>4,584,637</u>
TOTAL LIABILITIES	28,665,067	10,148,893	38,813,960
NET ASSETS			
Invested in capital assets, net of related debt	53,934,701	2,151,420	56,086,121
Restricted for:			
Grants and other statutory restrictions	3,605,044	9,950	3,614,994
Permanent funds:			
Nonexpendable	719,775	-	719,775
Expendable	61,380	-	61,380
Unrestricted	<u>(2,759,486)</u>	<u>105,574</u>	<u>(2,653,912)</u>
TOTAL NET ASSETS	\$ <u>55,561,414</u>	\$ <u>2,266,944</u>	\$ <u>57,828,358</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,719,401	\$ 259,777	\$ 162,605	\$ -	\$ (1,297,019)	\$ -	\$ (1,297,019)
Public safety	4,024,430	887,892	104,514	255,550	(2,776,474)	-	(2,776,474)
Education	27,423,031	1,820,962	9,123,762	-	(16,478,307)	-	(16,478,307)
Public works	5,661,554	79,796	18,750	370,276	(5,192,732)	-	(5,192,732)
Health and human services	512,820	60,975	48,896	-	(402,949)	-	(402,949)
Culture and recreation	810,569	46,673	30,024	-	(733,872)	-	(733,872)
Employee benefits	8,462,418	-	-	-	(8,462,418)	-	(8,462,418)
Interest	992,873	-	-	-	(992,873)	-	(992,873)
Intergovernmental	289,895	-	-	-	(289,895)	-	(289,895)
Total Governmental Activities	49,896,991	3,156,075	9,488,551	625,826	(36,626,539)	-	(36,626,539)
Business-Type Activities:							
Golf Course	1,074,381	918,140	-	-	-	(156,241)	(156,241)
Total Business-Type Activities	1,074,381	918,140	-	-	-	(156,241)	(156,241)
Total	\$ 50,971,372	\$ 4,074,215	\$ 9,488,551	\$ 625,826	(36,626,539)	(156,241)	(36,782,780)
General Revenues, Transfers, and Contributions:							
					27,667,147	-	27,667,147
Property taxes					1,888,703	-	1,888,703
Excises					421,335	-	421,335
Penalties, interest and other taxes					1,350,015	-	1,350,015
Grants and contributions not restricted to specific programs					44,574	4,090	48,664
Investment income					981,003	63,189	1,044,192
Other					(777,028)	777,028	-
Transfers, net					8,700	-	8,700
Permanent fund contributions							
Total general revenues, transfers, and contributions					31,584,449	844,307	32,428,756
Change in Net Assets					(5,042,090)	688,066	(4,354,024)
Net Assets:							
Beginning of year					60,603,504	1,578,878	62,182,382
End of year					\$ 55,561,414	\$ 2,266,944	\$ 57,828,358

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Emergency Medical Services</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 2,914,990	\$ 269,535	\$ 1,294,514	\$ 2,817,385	\$ 7,296,424
Receivables:					
Property taxes	730,418	-	-	-	730,418
Excises	162,083	-	-	-	162,083
Intergovernmental	-	-	-	370,276	370,276
Departmental and other	-	84,000	-	30,851	114,851
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,807,491</u>	<u>\$ 353,535</u>	<u>\$ 1,294,514</u>	<u>\$ 3,218,512</u>	<u>\$ 8,674,052</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 505,694	\$ 3,669	\$ -	\$ 32,099	\$ 541,462
Deferred revenues	746,195	84,000	-	30,851	861,046
Accrued liabilities	465,959	-	-	555	466,514
Notes payable	-	-	-	149,937	149,937
Tax refunds payable	224,172	-	-	-	224,172
Other liabilities	216,277	-	-	-	216,277
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	2,158,297	87,669	-	213,442	2,459,408
Fund Balances:					
Reserved for:					
Encumbrances	637,564	-	-	-	637,564
Expenditures	481,045	-	-	-	481,045
Perpetual (nonexpendable) permanent funds	-	-	-	719,775	719,775
Unreserved:					
Undesignated, reported in:					
General fund	530,585	-	-	-	530,585
Special revenue funds	-	265,866	1,294,514	2,310,530	3,870,910
Capital project funds	-	-	-	(86,615)	(86,615)
Permanent funds	-	-	-	61,380	61,380
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,649,194</u>	<u>265,866</u>	<u>1,294,514</u>	<u>3,005,070</u>	<u>6,214,644</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,807,491</u>	<u>\$ 353,535</u>	<u>\$ 1,294,514</u>	<u>\$ 3,218,512</u>	<u>\$ 8,674,052</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total governmental fund balances	\$ 6,214,644
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	75,686,379
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	696,246
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(381,604)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(26,654,251)</u>
Net assets of governmental activities	<u>\$ 55,561,414</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>ARRA Grant</u>	<u>Emergency Medical Services</u>	<u>Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 27,578,271	\$ -	\$ -	\$ -	\$ -	\$ 27,578,271
Excises	1,931,850	-	-	-	-	1,931,850
Penalties, interest and other taxes	121,296	-	-	-	-	121,296
Payments in lieu of taxes	300,039	-	-	-	-	300,039
Charges for services	422,574	-	496,018	-	1,789,471	2,708,063
Intergovernmental	8,839,040	430,732	-	-	1,869,114	11,138,886
Licenses and permits	340,353	-	-	-	-	340,353
Fines and forfeitures	107,216	-	-	-	-	107,216
Investment income	15,682	-	2,044	15,548	25,113	58,387
Miscellaneous	982,880	-	-	-	318,517	1,301,397
Total Revenues	<u>40,639,201</u>	<u>430,732</u>	<u>498,062</u>	<u>15,548</u>	<u>4,002,215</u>	<u>45,585,758</u>
Expenditures:						
Current:						
General government	1,536,879	-	-	-	177,896	1,714,775
Public safety	3,809,978	-	452,796	-	865,276	5,128,050
Education	22,767,561	430,732	-	-	2,554,576	25,752,869
Public works	5,561,777	-	-	-	495,850	6,057,627
Health and human services	277,518	-	-	-	128,140	405,658
Culture and recreation	638,130	-	-	-	54,974	693,104
Employee benefits	4,212,501	-	-	-	-	4,212,501
Debt service	2,795,928	-	-	-	-	2,795,928
Intergovernmental	289,895	-	-	-	-	289,895
Total Expenditures	<u>41,890,167</u>	<u>430,732</u>	<u>452,796</u>	<u>-</u>	<u>4,276,712</u>	<u>47,050,407</u>
Excess (deficiency) of revenues over expenditures	(1,250,966)	-	45,266	15,548	(274,497)	(1,464,649)
Other Financing Sources (Uses):						
Bond proceeds	-	-	-	-	560,000	560,000
Transfers in	2,497,245	-	-	375,000	154,993	3,027,238
Transfers out	(1,437,021)	-	-	-	(2,367,245)	(3,804,266)
Total Other Financing Sources (Uses)	<u>1,060,224</u>	<u>-</u>	<u>-</u>	<u>375,000</u>	<u>(1,652,252)</u>	<u>(217,028)</u>
Change in fund balance	(190,742)	-	45,266	390,548	(1,926,749)	(1,681,677)
Fund Equity, at Beginning of Year, as restated	<u>1,839,936</u>	<u>-</u>	<u>220,600</u>	<u>903,966</u>	<u>4,931,819</u>	<u>7,896,321</u>
Fund Equity, at End of Year	<u>\$ 1,649,194</u>	<u>\$ -</u>	<u>\$ 265,866</u>	<u>\$ 1,294,514</u>	<u>\$ 3,005,070</u>	<u>\$ 6,214,644</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (1,681,677)														
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases</td> <td style="text-align: right;">2,497,842</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(3,015,712)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">46,172</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Issuance of debt</td> <td style="text-align: right;">(560,000)</td> </tr> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">1,860,100</td> </tr> </table> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(57,045)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(4,131,770)</u></td> </tr> </table> 		Capital outlay purchases	2,497,842	Depreciation	(3,015,712)		46,172	Issuance of debt	(560,000)	Repayments of debt	1,860,100		(57,045)		<u>(4,131,770)</u>
Capital outlay purchases	2,497,842														
Depreciation	(3,015,712)														
	46,172														
Issuance of debt	(560,000)														
Repayments of debt	1,860,100														
	(57,045)														
	<u>(4,131,770)</u>														
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(5,042,090)</u></u>														

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Property taxes	\$ 27,702,666	\$ 27,772,666	\$ 27,772,666	\$ -
Excise	2,023,324	1,973,324	1,931,850	(41,474)
Penalties, interest and other taxes	95,000	95,000	121,296	26,296
Payments in lieu of taxes	285,000	285,000	300,039	15,039
Charges for services	344,500	344,500	422,574	78,074
Intergovernmental	5,553,367	5,427,233	5,284,830	(142,403)
Licenses and permits	450,000	400,000	340,353	(59,647)
Fines and forfeits	98,000	98,000	107,216	9,216
Investment income	99,270	74,270	15,682	(58,588)
Other	1,000,000	1,000,000	982,880	(17,120)
Transfers in	2,342,452	2,472,452	2,497,245	24,793
Use of free cash	115,510	376,362	376,362	-
Use of overlay surplus	60,000	60,000	60,000	-
Total Revenues and Other Sources	40,169,089	40,378,807	40,212,993	(165,814)
Expenditures and Other Uses:				
General government	1,527,353	1,561,757	1,507,252	54,505
Public safety	3,735,286	3,735,286	3,718,921	16,365
Education	19,655,027	19,596,673	19,165,878	430,795
Public works	5,523,138	5,773,138	5,561,350	211,788
Health and human services	292,380	292,380	281,697	10,683
Culture and recreation	633,033	616,701	609,190	7,511
Debt service	2,795,919	2,795,919	2,795,928	(9)
Intergovernmental	294,006	294,006	289,895	4,111
Employee benefits	4,284,544	4,284,544	4,212,501	72,043
Other	18,899	18,899	18,899	-
Transfers out	1,409,504	1,409,504	1,437,021	(27,517)
Total Expenditures and Other Uses	40,169,089	40,378,807	39,598,532	780,275
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 614,461	\$ 614,461

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-type Activity <u>Golf Course Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 302,417
Total current assets	<u>302,417</u>
Noncurrent:	
Land and construction in progress	11,643,093
Capital assets, net of accumulated depreciation	<u>470,327</u>
Total noncurrent assets	<u>12,113,420</u>
TOTAL ASSETS	12,415,837
<u>LIABILITIES</u>	
Current:	
Accounts payable	12,367
Accrued liabilities	111,526
Current portion of long-term liabilities:	
Bonds payable	<u>454,000</u>
Total current liabilities	577,893
Noncurrent:	
Bonds payable, net of current portion	<u>9,571,000</u>
Total noncurrent liabilities	<u>9,571,000</u>
TOTAL LIABILITIES	10,148,893
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	2,151,420
Restricted for debt service	9,950
Unrestricted	<u>105,574</u>
TOTAL NET ASSETS	<u>\$ 2,266,944</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-type Activity <u>Golf Course Fund</u>
Operating Revenues:	
Fees	\$ <u>918,140</u>
Total Operating Revenues	918,140
Operating Expenses:	
Salaries	445,992
Depreciation	14,384
Other	<u>248,747</u>
Total Operating Expenses	<u>709,123</u>
Operating Income (Loss)	209,017
Nonoperating Revenues (Expenses):	
Investment income	4,090
Debt premiums	63,189
Debt issue costs	(53,239)
Interest expense	<u>(312,019)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(297,979)</u>
Income (Loss) before transfers	(88,962)
Transfers:	
Operating transfers in	907,028
Operating transfers (out)	<u>(130,000)</u>
Total transfers	<u>777,028</u>
Change in Net Assets	688,066
Net Assets at Beginning of Year	<u>1,578,878</u>
Net Assets at End of Year	\$ <u><u>2,266,944</u></u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-type Activity
	<u>Golf Course Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 918,140
Payments to vendors and employees	<u>(693,401)</u>
Net Cash Provided By (Used For) Operating Activities	224,739
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers from general fund	907,028
Transfers to general fund	<u>(130,000)</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	777,028
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition of capital assets	(38,036)
Bond premium	63,189
Proceeds of bonds	7,260,000
Principal payments on bond anticipation notes	(7,650,000)
Principal payments on bonds	(120,000)
Bond issue costs	(53,239)
Interest expense	<u>(312,019)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(850,105)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>4,090</u>
Net Cash Provided By (Used For) Investing Activities	<u>4,090</u>
Net Change in Cash and Short-Term Investments	155,752
Cash and Short-Term Investments, Beginning of Year	<u>146,665</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 302,417</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating income (loss)	\$ 209,017
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	14,384
Changes in assets and liabilities:	
Accounts payable	(3,055)
Accrued expenses	<u>4,393</u>
Net Cash Provided By (Used For) Operating Activities	<u><u>\$ 224,739</u></u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>		
Cash and short term investments	\$ 187,566	\$ 346,661
Investments	6,122	-
Other assets	<u>-</u>	<u>62,949</u>
Total Assets	193,688	409,610
<u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	837	1,656
Other liabilities	<u>-</u>	<u>407,954</u>
Total Liabilities	<u>837</u>	<u>409,610</u>
<u>NET ASSETS</u>		
Restricted for endowment	150,891	-
Unrestricted	<u>41,960</u>	<u>-</u>
Total net assets held in trust	<u>\$ 192,851</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions	\$ 2,075
Investment income	<u>2,991</u>
Total additions	5,066
Deductions:	
Scholarship awards	<u>8,948</u>
Total deductions	<u>8,948</u>
Net increase (decrease)	(3,882)
Net assets:	
Beginning of year	<u>196,733</u>
End of year	<u>\$ 192,851</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Lynnfield (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2009, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded to the Town to replace a portion of the fiscal 2009 Chapter 70 State Aid reductions.

- The *Emergency Medical Services Fund* is used to account for revenues and expenditures associated with providing emergency medical services to individuals within the Town of Lynnfield.
- The *Stabilization Fund* is a trust fund used to account for resources the Town has set aside for future appropriation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major proprietary fund:

- The *Golf Course Fund* is used to account for all of the activity associated with the Town's operation of the Reedy Meadow and King Rail Reserve golf courses.

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

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under

the caption “cash and short-term investments”. The interest earnings attributable to each fund type are included under investment income.

For purposes of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of certificates of deposits and are carried at market value.

F. Property Tax Limitations

Legislation known as “Proposition 2 1/2” limits the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2009 tax levy reflected an excess capacity of \$ 5,685.

G. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	30 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year com-

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 40,639,201	\$ 41,890,167
Other financing sources/uses (GAAP basis)	<u>2,497,245</u>	<u>1,437,021</u>
Subtotal (GAAP Basis)	43,136,446	43,327,188
Adjust tax revenue to accrual basis	194,395	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(830,909)
Add end of year appropriation carryforwards to expenditures	-	637,564
To record raising of prior year overlay deficit	-	18,899
Recognize use of free cash as a funding source	376,362	-
Recognize use of overlay surplus as a funding source	60,000	-
To reverse the effect of non- budgeted State contributions for teachers retirement	(<u>3,554,210</u>)	(<u>3,554,210</u>)
Budgetary basis	\$ <u>40,212,993</u>	\$ <u>39,598,532</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Special Revenue

Various federal grants	\$ (33,498)
Various state grants	\$ (54,594)

Capital Projects

Septic system loans	\$ (94,456)
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These deficits will be eliminated through future intergovernmental revenues and bond proceeds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law, Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town's deposits do not exceed this limitation.

As of June 30, 2009, \$ 3,507,544 of the Town's bank balance of \$ 6,932,765 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

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

Presented below (in thousands) is the actual rating as of year end for each investment type of the Town.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Certificates of deposit	\$ <u>6</u>	N/A	\$ <u>6</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

As of June 30, 2009, the Town had no investments that were exposed to custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount that may be invested in any one issuer.

As of June 30, 2009, the Town held one investment in a certificate of deposit that was fully insured by the Federal Depository Insurance Corporation (FDIC).

The Town's remaining surplus funds were invested in various short-term certificates of deposit maturing in 34 days from the date of issue. As such, they are classified as cash and short-term investments, which are discussed in Note 3.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
Certificates of deposit	\$ <u>6</u>	\$ <u>6</u>	\$ <u>-</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. As of June 30, 2009, the Town had no investments that were exposed to foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien

against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2009 consist of the following:

Real Estate		
2009		\$ 484,267
Personal Property		
2009	2,985	
2008	222	
Prior	<u>4,790</u>	
		7,997
Tax Liens		73,221
Deferred Taxes		162,774
Taxes in Litigation		<u>2,159</u>
Total		\$ <u>730,418</u>

6. **Allowance for Doubtful Accounts**

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

	<u>Governmental</u>
Property taxes	\$ 79,362
Excises	\$ 54,588

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

8. **Departmental and Other Receivables**

This balance represents charges billed for emergency medical services (net of estimated discounts and allowances), and charges due for unbilled special assessments.

9. **Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Ending Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 87,904	\$ 190	\$ -	\$ 88,094
Machinery, equipment, and furnishings	10,849	1,786	-	12,635
Infrastructure	<u>7,406</u>	<u>429</u>	<u>-</u>	<u>7,835</u>
Total capital assets, being depreciated	106,159	2,405	-	108,564
Less accumulated depreciation for:				
Buildings and improvements	(27,457)	(1,932)	-	(29,389)
Machinery, equipment, and furnishings	(6,993)	(891)	-	(7,884)
Infrastructure	<u>(1,878)</u>	<u>(193)</u>	<u>-</u>	<u>(2,071)</u>
Total accumulated depreciation	<u>(36,328)</u>	<u>(3,016)</u>	<u>-</u>	<u>(39,344)</u>
Total capital assets, being depreciated, net	<u>69,831</u>	<u>(611)</u>	<u>-</u>	<u>69,220</u>
Capital assets, not being depreciated:				
Land	6,362	-	-	6,362
Construction in progress	<u>11</u>	<u>104</u>	<u>(11)</u>	<u>104</u>
Total capital assets, not being depreciated	<u>6,373</u>	<u>104</u>	<u>(11)</u>	<u>6,466</u>
Governmental activities capital assets, net	\$ <u>76,204</u>	\$ <u>(507)</u>	\$ <u>(11)</u>	\$ <u>75,686</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 482	\$ -	\$ -	\$ 482
Machinery, equipment, and furnishings	<u>-</u>	<u>38</u>	<u>-</u>	<u>38</u>
Total capital assets, being depreciated	482	38	-	520
Less accumulated depreciation for:				
Buildings and improvements	(35)	(12)	-	(47)
Machinery, equipment, and furnishings	<u>(-)</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Total accumulated depreciation	<u>(35)</u>	<u>(14)</u>	<u>-</u>	<u>(49)</u>
Total capital assets, being depreciated, net	<u>447</u>	<u>24</u>	<u>-</u>	<u>471</u>
Capital assets, not being depreciated:				
Land	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>11,643</u>
Total capital assets, not being depreciated	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>11,643</u>
Business-type activities capital assets, net	\$ <u>12,090</u>	\$ <u>24</u>	\$ <u>-</u>	\$ <u>12,114</u>

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

Governmental Activities:	
General government	\$ 52
Public safety	256
Education	1,999
Public works	460
Health and human services	108
Culture and recreation	<u>141</u>
Total depreciation expense - governmental activities	\$ <u>3,016</u>
Business-Type Activities:	
Golf Course	\$ <u>14</u>
Total depreciation expense - business-type activities	\$ <u>14</u>

10. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2009 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

Governmental activities report *deferred revenue* in connection with receivables for unbilled special assessments.

12. Tax Refunds Payable

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

13. Accrued Liabilities

Accrued liabilities consist of amounts accrued at June 30, 2009 for fiscal 2009 employee payrolls, as well as interest accrued on outstanding bonds.

14. Notes Payable

The Town had the following note outstanding at June 30, 2009:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2009</u>
MWPAT Interim Loan Note	0%	10/15/08	10/15/09	\$ 149,937

The following summarizes activity in notes payable during fiscal year 2009 (in thousands):

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Septic system loans	\$ -	\$ 149,937	\$ -	\$ 149,937
Golf course purchase	<u>7,650,000</u>	<u>-</u>	<u>(7,650,000)</u>	<u>-</u>
Total	<u>\$ 7,650,000</u>	<u>\$ 149,937</u>	<u>\$(7,650,000)</u>	<u>\$ 149,937</u>

15. Other Current Liabilities

This balance consists primarily of various payroll withholdings.

16. Long-Term Debt

A. General Obligation Bonds

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

	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2009</u>
<u>Governmental Activities:</u>			
Town buildings (refunding debt)	01/01/10	3.98%	\$ 205,000
Septic (MWPAT)	08/01/18	-	100,976
School bonds	03/01/23	3.93%	9,100,000
Town Bldg Projects	07/01/24	4.43%	10,930,000
Capital Articles/Squad One	02/15/24	4.02%	1,020,000
Fire Truck	02/15/19	2.26%	<u>560,000</u>
Total Governmental Activities:			<u>\$ 21,915,976</u>

(continued)

(continued)

	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2009</u>
<u>Business-Type Activities:</u>			
Golf Course Purchase	02/15/25	4.01%	\$ 2,765,000
Golf Course Purchase	02/15/25	3.29%	<u>7,260,000</u>
Total Business-Type Activities:			<u>\$ 10,025,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,856,100	\$ 888,169	\$ 2,744,269
2011	1,546,100	823,376	2,369,476
2012	1,541,099	767,930	2,309,029
2013	1,526,100	710,601	2,236,701
2014	1,506,099	653,255	2,159,354
2015 - 2019	7,385,478	2,392,856	9,778,334
2020 - 2024	5,970,000	846,284	6,816,284
Thereafter	<u>585,000</u>	<u>14,625</u>	<u>599,625</u>
Total	<u>\$ 21,915,976</u>	<u>\$ 7,097,096</u>	<u>\$ 29,013,072</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2009.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 454,000	\$ 335,542	\$ 789,542
2011	469,000	322,318	791,318
2012	489,000	310,338	799,338
2013	519,000	294,317	813,317
2014	534,000	280,675	814,675
2015 - 2019	3,020,000	1,161,572	4,181,572
2020 - 2024	3,710,000	614,313	4,324,313
Thereafter	<u>830,000</u>	<u>33,425</u>	<u>863,425</u>
Total	<u>\$ 10,025,000</u>	<u>\$ 3,352,500</u>	<u>\$ 13,377,500</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 23,216	\$ 560	\$ (1,860)	\$ 21,916	\$ (1,856)	\$ 20,060
Other:						
Accrued employee benefits	607	5	(124)	488	(154)	334
OPEB*	<u>-</u>	<u>4,250</u>	<u>-</u>	<u>4,250</u>	<u>-</u>	<u>4,250</u>
Subtotal - Other	<u>607</u>	<u>4,255</u>	<u>(124)</u>	<u>4,738</u>	<u>(154)</u>	<u>4,584</u>
Totals	\$ <u>23,823</u>	\$ <u>4,815</u>	\$ <u>(1,984)</u>	\$ <u>26,654</u>	\$ <u>(2,010)</u>	\$ <u>24,644</u>

*OPEB is discussed further in Note 20 and additional information is reported in required supplementary information.

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>2,885</u>	\$ <u>7,260</u>	\$ <u>(120)</u>	\$ <u>10,025</u>	\$ <u>(454)</u>	\$ <u>9,571</u>
Totals	\$ <u>2,885</u>	\$ <u>7,260</u>	\$ <u>(120)</u>	\$ <u>10,025</u>	\$ <u>(454)</u>	\$ <u>9,571</u>

17. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

18. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

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

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

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

19. Commitments and Contingencies

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

20. Post-Employment Health Care Benefits

Other Post-Employment Benefits

In fiscal year 2009, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use them. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in Note 21, the Town provides post-employment medical insurance benefits to eligible retirees. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. All employees retiring from the Town that worked 20 or more hours per week as an active Town employee (23.5 hours for teachers) are eligible to receive benefits. There are no age or service requirements to become eligible for post-employment retirement benefits. As of July 1, 2007, the actuarial valuation date, approximately 260 retirees and 286 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical insurance to all eligible retirees through three medical plan options until they become Medicare eligible; Blue Cross Blue Shield HMO Blue, Blue Cross Blue Shield Blue Care Elect Preferred (PPO), and Vital Insurance Protection (VIP). Once the retiree is eligible for Medicare, they enter the Blue Cross Blue Shield Medex 3 Plan. All active employees who retire from the Town and meet the eligibility criteria can receive these benefits. The Town does not provide coverage for dental insurance or life insurance.

C. Funding Policy

The Town contributes 85% of the medical insurance premiums for eligible retirees, under either individual or family medical coverage, on a pay-as-you-go basis. Retirees contribute the remainder of their chosen health plan costs.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years.

The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of July 1, 2007.

Annual Required Contribution (ARC)	\$ 5,649,666
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	5,649,666
Expected employer contributions	<u>(1,399,749)</u>
Increase in net OPEB obligation	4,249,917
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 4,249,917</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2009 fiscal year and the two preceding years were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2007	N/A	N/A	N/A
2008	N/A	N/A	N/A
2009	\$ 5,649,666	24.8%	\$ 4,249,917

The Town's net OPEB obligation as of June 30, 2009 is recorded as a component of the "other liabilities, net of current portion" line item in the Statement of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2007, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 48,697,619
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 48,697,619</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 13,369,762
UAAL as a percentage of covered payroll	364.2%

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2007 actuarial valuation, the Projected Unit Credit funding method (with service proration) was used. The actuarial value of assets is equal to the market value of the plan's assets. The actuarial assumptions included a 4.0% discount rate and an initial health care cost trend rate of 9.5% per year graded off 0.5% per year to an ultimate rate of 4.5% per year. The UAAL is amortized over a period of thirty years. The thirty year level dollar amortization is presumed to be established on an open amortization basis, where the period of amortization is reset each year to be thirty years.

21. Pension Plan

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

A. Plan Description

The Town contributes to the Essex Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that can be obtained through the Essex Regional Retirement Board at 491 Maple Street, Suite 202, Danvers, Massachusetts 01923.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were \$ 1,254,711, \$ 1,305,280 and \$ 1,225,678, respectively, which were equal to its annual required contributions for each of these years.

The payroll for employees covered by the System for the year ended June 30, 2009 was \$ 7,909,615.

C. Massachusetts Teacher Retirement System (MTRS) - Plan Description

As required by State Statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is fund-

ed by contributions from covered employees and the Commonwealth of Massachusetts. The MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The Town is not required to contribute.

D. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

*Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The Town's current year covered payroll for teachers and administrators was \$ 12,721,140.

In fiscal year 2009, the Commonwealth of Massachusetts contributed \$ 3,554,210 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There

were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

23. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously <u>reported</u>)	<u>Reclassification</u>	Fund Equity 6/30/08 (<u>as restated</u>)
Nonmajor Funds	\$ 4,016,539	\$ 915,280	\$ 4,931,819
Building Reserve Fund	1,819,246	(1,819,246)	-
Stabilization Fund	<u>-</u>	<u>903,966</u>	<u>903,966</u>
Total	\$ <u><u>5,835,785</u></u>	\$ <u><u>-</u></u>	\$ <u><u>5,835,785</u></u>

**TOWN OF LYNNFIELD, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009
(Unaudited)**

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Project Unit Credit <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
07/01/07	\$ -	\$ 48,697,619	\$ 48,697,619	0.0%	\$ 13,369,762	364.2%

See Independent Auditors' Report.