

**TOWN OF NATICK, MASSACHUSETTS**

**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

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



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# *Independent Auditors' Report*



*Certified Public Accountants*

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**Independent Auditors' Report**

To the Honorable Board of Selectmen  
Town of Natick, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Natick, Massachusetts, as of and for the fiscal year ended June 30, 2010 (except for the Natick Contributory Retirement System, which is as of and for the year ended December 31, 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 Natick, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Morse Institute in Natick, a discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in these financial statements, is based solely on the report of the other auditor.

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. The financial statements of the Morse Institute in Natick were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other auditor provide a reasonable basis for our opinions.

As more fully described in Note 1, the financial statements of the Morse Institute in Natick were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on the report of the other auditor, the financial statements of the Morse Institute in Natick referred to above, presents fairly, in all material respects, the financial position of the Morse Institute in Natick as of June 30, 2010, and the change in financial position for the year then ended in conformity with the basis of accounting as described in Note 1.

In addition, 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 Natick, Massachusetts, as of June 30, 2010 (except for the Natick Contributory Retirement System, which is as of and for the year ended December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011, on our consideration of the Town of Natick, Massachusetts' 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and budgetary comparison and pension information (located on pages 61 through 65) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



March 9, 2011

# *Management's Discussion and Analysis*

As management of the Town of Natick, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2010.

### *Financial Highlights*

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$102,492,634 (net assets). Of this amount, \$12,276,016 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by \$6,336,267.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$23,566,898, a decrease of \$4,772,302 in comparison with the prior year. Approximately \$20,527,000 represents unreserved fund balance of the general fund, special revenue, nonmajor capital projects and permanent funds. The High School project fund deficit of \$2,927,006 will be funded by proceeds of long-term debt in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$4,478,478, or 4.2 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$1,128,445 during the fiscal year. The Town issued \$5,524,385 of new debt during the year for building remodeling, departmental equipment, sewer projects and water mains lining.

### *Overview of the Basic Financial Statements*

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town 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*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's water and sewer and golf course operations.

The government-wide financial statements can be found on pages 15-17 of this report.

### Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 expendable resources, as well as on balances of expendable 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 effect 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.

The Town maintains 48 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general and high school project (capital project) funds, each of which are considered to be major funds. Data from the other 46 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

### **Proprietary funds**

The Town maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer and golf course operations, water and sewer is considered to be major fund.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**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 programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the Town's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

**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. The notes to the financial statements can be found on pages 27-60 of this report.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 61-65.

***Government-Wide Financial Analysis***

The following tables present current and prior year data on the government-wide financial statements.

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$102,492,634 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2010	2009	2010	2009	2010	2009
<b>Assets</b>						
Current assets.....	\$ 40,195,646	\$ 40,514,350	\$ 11,502,036	\$ 11,083,198	\$ 51,697,682	\$ 51,597,548
Noncurrent assets (excluding capital assets).....	5,596,574	6,234,290	2,064,160	2,215,659	7,660,734	8,449,949
Capital assets (net).....	94,996,459	90,933,051	35,998,261	35,609,688	130,994,720	126,542,739
<b>Total assets.....</b>	<b>140,788,679</b>	<b>137,681,691</b>	<b>49,564,457</b>	<b>48,908,545</b>	<b>190,353,136</b>	<b>186,590,236</b>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	9,797,262	6,356,847	394,377	387,635	10,191,639	6,744,482
Noncurrent liabilities (excluding debt).....	17,608,854	9,738,408	400,838	220,829	18,009,692	9,959,237
Current debt.....	8,082,471	7,739,529	1,962,047	2,433,301	10,044,518	10,172,830
Noncurrent debt.....	34,674,306	35,959,777	14,940,347	14,925,009	49,614,653	50,884,786
<b>Total liabilities.....</b>	<b>70,162,893</b>	<b>59,794,561</b>	<b>17,697,609</b>	<b>17,966,774</b>	<b>87,860,502</b>	<b>77,761,335</b>
<b>Net Assets</b>						
Invested in capital assets (net of related debt).....	64,200,225	60,556,120	21,794,021	20,966,608	85,994,246	81,522,728
Restricted.....	4,222,372	5,472,452	-	-	4,222,372	5,472,452
Unrestricted.....	2,203,189	11,858,558	10,072,827	9,975,163	12,276,016	21,833,721
<b>Total net assets.....</b>	<b>\$ 70,625,786</b>	<b>\$ 77,887,130</b>	<b>\$ 31,866,848</b>	<b>\$ 30,941,771</b>	<b>\$ 102,492,634</b>	<b>\$ 108,828,901</b>

The largest portion of the Town's net assets (83.9%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, library books and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (4.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (12.0% or \$12,276,016) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$2,203,189 may be used to support governmental activities and \$10,072,827 may be used to support business-type activities.

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

Changes in Net Assets

For the fiscal year ended June 30, 2010, the Town's total net assets decreased by \$6,336,267, compared to a decrease of \$3,062,418 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 8,794,557	\$ 9,526,893	\$ 13,387,342	\$ 14,570,576	\$ 22,181,899	\$ 24,097,469
Operating grants and contributions.....	21,982,726	20,701,762	190,630	136,019	22,173,356	20,837,781
Capital grants and contributions.....	1,420,658	914,330	-	-	1,420,658	914,330
<i>General Revenues:</i>						
Real estate and personal property taxes.....	73,480,870	74,835,918	-	-	73,480,870	74,835,918
Motor vehicle and other excise taxes.....	3,734,772	3,934,228	-	-	3,734,772	3,934,228
Hotel/motel taxes.....	748,707	833,846	-	-	748,707	833,846
Penalties and interest on taxes.....	351,613	532,254	-	-	351,613	532,254
Payments in lieu of taxes.....	28,292	117,635	-	-	28,292	117,635
Grants and contributions not restricted to specific programs.....	3,889,765	4,596,670	-	-	3,889,765	4,596,670
Unrestricted investment income.....	462,957	354,263	-	-	462,957	354,263
Other.....	100,411	-	-	-	100,411	-
<b>Total revenues.....</b>	<b>114,995,328</b>	<b>116,347,799</b>	<b>13,577,972</b>	<b>14,706,595</b>	<b>128,573,300</b>	<b>131,054,394</b>
<b>Expenses</b>						
General government.....	5,621,440	7,081,409	-	-	5,621,440	7,081,409
Public safety.....	19,608,515	19,805,403	-	-	19,608,515	19,805,403
Education.....	79,598,368	77,349,502	-	-	79,598,368	77,349,502
Public works.....	10,439,353	10,145,559	-	-	10,439,353	10,145,559
Health and human services.....	2,136,225	2,266,468	-	-	2,136,225	2,266,468
Culture and recreation.....	2,117,581	2,168,205	-	-	2,117,581	2,168,205
Library.....	2,913,962	2,817,469	-	-	2,913,962	2,817,469
Debt service - interest.....	1,854,644	1,984,200	-	-	1,854,644	1,984,200
Water and Sewer.....	-	-	9,825,671	9,666,094	9,825,671	9,666,094
Golf.....	-	-	793,808	832,503	793,808	832,503
<b>Total expenses.....</b>	<b>124,290,088</b>	<b>123,618,215</b>	<b>10,619,479</b>	<b>10,498,597</b>	<b>134,909,567</b>	<b>134,116,812</b>
Change in net assets before transfers.....	(9,294,760)	(7,270,416)	2,958,493	4,207,998	(6,336,267)	(3,062,418)
Transfers, net.....	2,033,416	2,176,812	(2,033,416)	(2,176,812)	-	-
Change in net assets.....	(7,261,344)	(5,093,604)	925,077	2,031,186	(6,336,267)	(3,062,418)
Net assets - beginning of year (as restated).....	77,887,130	82,980,734	30,941,771	28,910,585	108,828,901	111,891,319
<b>Net assets - end of year.....</b>	<b>\$ 70,625,786</b>	<b>\$ 77,887,130</b>	<b>\$ 31,866,848</b>	<b>\$ 30,941,771</b>	<b>\$ 102,492,634</b>	<b>\$ 108,828,901</b>

Governmental activities decreased the Town's net assets by \$7,261,344. In the prior year, governmental activities decreased the Town's net assets by \$5,093,604. The key element of this change is a decrease in real estate and personal property tax revenue of approximately \$1,355,000 due to an increase in tax refunds payable.

Business-type activities increased the Town's net assets by \$925,077. In the prior year, business-type activities increased the Town's net assets by \$2,031,186. The key element of this change is a decrease in water and sewer charges for services due to decreased consumption in fiscal year 2010.

### *Fund Financial Statement Analysis*

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

#### Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$23,566,898, a decrease of \$4,772,302 in comparison with the prior year. 63.6% of this total amount (\$14,985,829) represents undesignated fund balance of the general fund, special revenue, nonmajor capital projects and permanent funds. The High School project fund deficit of \$2,927,006 will be funded by proceeds of long-term debt in future fiscal years. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$1,766,928)
- Debt service (\$1,713,604)
- Perpetual permanent funds (\$13,959)
- Other specific purposes (\$2,472,012)
- Stabilization (\$2,880,813)
- Subsequent year's expenditures (\$2,660,759)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$4,478,478, while total fund balance was \$11,786,978. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures and transfers out. Undesignated fund balance represents 4.2% of total general fund expenditures and transfers out, while total fund balance represents 11.0% of that same amount.

The balance of the Town's general fund decreased by \$1,285,658 during fiscal year 2010. Although the Town recognized an approximate \$5,582,000 budgetary surplus (excluding encumbrances and continuing appropriations), approximately \$4,425,000 of reserves was utilized for spending during the fiscal year. In addition, estimated abatements increased approximately \$3,200,000.

Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the high school project fund (capital project) decreased by \$2,766,488 during the current fiscal year. The fund recognized \$30,000 of transfers in from the general fund. Expenditures of \$2,796,488 were incurred during the current year.

#### Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer and golf course enterprise funds at the end of the year amounted to \$9,957,645 and \$115,182, respectively. The water and sewer and golf course enterprise funds both had an increase in net assets for the year; \$790,572 and \$134,505, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$99,802,567 was increased by \$1,948,820 (2.0%) during the year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Court judgment in fair labor standards act (FLSA).....	\$ 950,751	Tax levy and transfers
Transfer to stabilization fund.....	650,000	Tax levy and transfers
Police salary expense.....	200,689	Tax levy and transfers
Various DPW capital related items.....	147,380	Undesignated fund balance
<b>Total increase.....</b>	<b>\$ 1,948,820</b>	

During the year, general fund revenues exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$3,815,000. Encumbrances and continuing appropriations total approximately \$1,767,000 at year-end.

*Capital Asset and Debt Administration*

Capital assets

The Town’s investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$130,994,720 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, library books and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$4,451,981 or 3.5% (a 3.2% increase for governmental activities and a 0.3% increase for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- New high school construction in progress (\$2,784,238)
- Water and sewer infrastructure (\$1,339,416)
- Water and sewer construction in progress (\$1,260,574)
- Road construction in progress (\$1,068,894)
- Kennedy school building improvements (\$1,089,324)
- Glen Street construction in progress (\$593,717)
- Memorial school building improvements (\$527,890)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2010	2009	2010	2009	2010	2009
Land.....	\$ 10,124,124	\$ 10,124,124	\$ 1,053,254	\$ 1,053,254	\$ 11,177,378	\$ 11,177,378
Construction in progress.....	6,767,077	1,728,557	3,840,448	3,707,055	10,607,525	5,435,612
Land improvements.....	1,014,621	1,085,333	2,075,404	2,165,139	3,090,025	3,250,472
Buildings.....	58,745,675	58,798,945	112,981	115,994	58,858,656	58,914,939
Machinery and equipment.....	1,667,135	1,657,263	236,420	284,928	1,903,555	1,942,191
Vehicles.....	2,944,720	3,344,996	557,306	359,981	3,502,026	3,704,977
Library books.....	866,644	880,190	-	-	866,644	880,190
Infrastructure.....	12,866,463	13,313,643	28,122,448	27,923,337	40,988,911	41,236,980
<b>Total capital assets.....</b>	<b>\$ 94,996,459</b>	<b>\$ 90,933,051</b>	<b>\$ 35,998,261</b>	<b>\$ 35,609,688</b>	<b>\$ 130,994,720</b>	<b>\$ 126,542,739</b>

Additional information on the Town's capital assets can be found in Note 5 on pages 42-44 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$56,409,171, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2010	2009	2010	2009	2010	2009
General obligation bonds.....	\$ 39,128,694	\$ 40,351,763	\$ 12,568,306	\$ 12,218,237	\$ 51,697,000	\$ 52,570,000
MWRA notes.....	-	-	77,385	67,650	77,385	67,650
MWPAT notes.....	378,083	427,543	4,256,703	4,472,423	4,634,786	4,899,966
<b>Total bonds and notes.....</b>	<b>\$ 39,506,777</b>	<b>\$ 40,779,306</b>	<b>\$ 16,902,394</b>	<b>\$ 16,758,310</b>	<b>\$ 56,409,171</b>	<b>\$ 57,537,616</b>

The Town's total bonded debt decreased by \$1,128,445 (2.0%) during the current fiscal year. \$5,524,385 of new debt was issued during the year for building remodeling, departmental equipment, sewer projects and water mains lining.

The Town received an AAA rating from Standard & Poor's for its most recent issuance of long-term debt on June 10, 2010.

Additional information on the Town's long-term debt can be found in Note 9 on page 47-54 of this report.

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

Natick, like all communities in America, continued to deal with the impact of a lingering recession during fiscal year 2010. Although unemployment in Natick remained far below the national average (5.4% in October 2010 compared to a nationally non-seasonally adjusted level of 9.0% unemployment), citizens and the Town of Natick alike faced significant challenges in maintain the standard of living and services which many had grown accustomed to.

Fiscal year 2010 found the Town of Natick having to rely on less state aid than in the previous year – by nearly \$1,700,000. This decreased aid resulted in service reductions in several areas of the budget and the use of one-time Federal Stimulus dollars to maintain services within the Natick Public Schools. The purchasing and hiring freezes implemented in fiscal year 2009 were maintained throughout fiscal year 2010 in order to produce as much fund balance at the end of the year as possible to provide the community with a fighting chance to sustain services in fiscal year 2011, fiscal year 2012 and beyond with no immediate end to the recession in sight. These efforts were successful.

The development of the fiscal year 2011 general budget began similar to fiscal year 2010 with further state aid reductions forecast and the Town facing a multi-million dollar budget deficit. Given the limitations of proposition 2½, Massachusetts communities like Natick are limited to the rate of increase in base property taxes annually to 2½ percent. This places a large burden on other revenue categories to be as robust as possible to maintain government services. Unfortunately, local receipts remained effectively flat and state aid was forecast to decline. As a result, general government and education services were pared back again and contract settlements delayed in order to obtain health care concessions. Fortunately, after the start of fiscal year 2011, 15 of the town's 17 unions agreed to changes in their health care provisions which will save the Town money in the long-run. That change, combined with higher state aid than originally anticipated resulted in a fiscal year 2011 budget which actually maintained most services and built reserves.

### *Requests for Information*

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its 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, 13 East Central Street, Natick, Massachusetts 01760.

## *Basic Financial Statements*

## STATEMENT OF NET ASSETS

JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Morse Institute
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 31,552,927	\$ 4,686,655	\$ 36,239,582	\$ 366,686
Restricted cash and cash equivalents.....	3,294,894	2,641,102	5,935,996	-
Investments.....	-	-	-	1,601,535
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	1,738,637	-	1,738,637	-
Tax, trash and utility liens.....	1,695,547	167,919	1,863,466	-
Motor vehicle and other excise taxes.....	271,151	-	271,151	-
User charges.....	-	3,437,603	3,437,603	-
Special assessments.....	28,686	145,453	174,139	-
Departmental and other.....	341,316	-	341,316	-
Intergovernmental.....	1,691,935	-	1,691,935	-
Internal balances.....	(419,447)	419,447	-	-
Inventory.....	-	3,857	3,857	-
<b>Total current assets.....</b>	<b>40,195,646</b>	<b>11,502,036</b>	<b>51,697,682</b>	<b>1,968,221</b>
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Real estate tax deferrals.....	269,881	-	269,881	-
Special assessments.....	233,809	2,007,108	2,240,917	-
Intergovernmental.....	5,092,884	57,052	5,149,936	-
Capital assets not being depreciated.....	16,891,201	4,893,702	21,784,903	-
Capital assets, net of accumulated depreciation.....	78,105,258	31,104,559	109,209,817	-
<b>Total noncurrent assets.....</b>	<b>100,593,033</b>	<b>38,062,421</b>	<b>138,655,454</b>	<b>-</b>
<b>Total assets.....</b>	<b>140,788,679</b>	<b>49,564,457</b>	<b>190,353,136</b>	<b>1,968,221</b>
<b>LIABILITIES</b>				
Current liabilities:				
Warrants payable.....	2,007,616	128,505	2,136,121	-
Accrued payroll.....	741,871	34,548	776,419	-
Tax refunds payable.....	4,424,604	-	4,424,604	-
Other liabilities.....	1,756,463	-	1,756,463	-
Accrued interest.....	595,395	226,404	821,799	-
Workers' compensation claims.....	87,539	-	87,539	-
Landfill postclosure.....	34,043	-	34,043	-
Compensated absences.....	149,731	4,920	154,651	-
Short-term notes payable.....	3,250,000	-	3,250,000	-
Long-term bonds and notes payable.....	4,832,471	1,962,047	6,794,518	-
<b>Total current liabilities.....</b>	<b>17,879,733</b>	<b>2,356,424</b>	<b>20,236,157</b>	<b>-</b>
Noncurrent liabilities:				
Workers' compensation claims.....	87,539	-	87,539	-
Landfill postclosure.....	544,688	-	544,688	-
Net OPEB obligation.....	15,629,046	356,561	15,985,607	-
Compensated absences.....	1,347,581	44,277	1,391,858	-
Long-term bonds and notes payable.....	34,674,306	14,940,347	49,614,653	-
<b>Total noncurrent liabilities.....</b>	<b>52,283,160</b>	<b>15,341,185</b>	<b>67,624,345</b>	<b>-</b>
<b>Total liabilities.....</b>	<b>70,162,893</b>	<b>17,697,609</b>	<b>87,860,502</b>	<b>-</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	64,200,225	21,794,021	85,994,246	-
Restricted for:				
Debt service.....	1,713,604	-	1,713,604	-
Permanent funds:				
Expendable.....	22,797	-	22,797	-
Nonexpendable.....	13,959	-	13,959	939,302
Other specific purposes.....	2,472,012	-	2,472,012	-
Unrestricted.....	2,203,189	10,072,827	12,276,016	1,028,919
<b>Total net assets.....</b>	<b>\$ 70,625,786</b>	<b>\$ 31,866,848</b>	<b>\$ 102,492,634</b>	<b>\$ 1,968,221</b>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FOR THE 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>					
Governmental activities:					
General government.....	\$ 5,621,440	\$ 1,258,669	\$ 464,278	\$ -	\$ (3,898,493)
Public safety.....	19,608,515	2,464,679	278,375	-	(16,865,461)
Education.....	79,598,368	2,740,862	20,838,383	341,684	(55,677,439)
Public works.....	10,439,353	1,092,229	12,206	1,078,974	(8,255,944)
Health and human services.....	2,136,225	180,609	216,866	-	(1,738,750)
Culture and recreation.....	2,117,581	982,396	72,110	-	(1,063,075)
Library.....	2,913,962	75,113	88,513	-	(2,750,336)
Debt service - interest.....	1,854,644	-	11,995	-	(1,842,649)
Total governmental activities.....	<u>124,290,088</u>	<u>8,794,557</u>	<u>21,982,726</u>	<u>1,420,658</u>	<u>(92,092,147)</u>
Business-type activities:					
Water and Sewer.....	9,825,671	12,814,029	190,630	-	3,178,988
Golf.....	793,808	573,313	-	-	(220,495)
Total business-type activities.....	<u>10,619,479</u>	<u>13,387,342</u>	<u>190,630</u>	<u>-</u>	<u>2,958,493</u>
Total primary government.....	<u>\$ 134,909,567</u>	<u>\$ 22,181,899</u>	<u>\$ 22,173,356</u>	<u>\$ 1,420,658</u>	<u>\$ (89,133,654)</u>
<b>Component units:</b>					
Morse Institute.....	<u>\$ 178,693</u>	<u>\$ 7,818</u>	<u>\$ 301,909</u>	<u>\$ -</u>	<u>\$ 131,034</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense)/revenue (from previous page).....	\$ (92,092,147)	\$ 2,958,493	\$ (89,133,654)	\$ 131,034
<i>General revenues:</i>				
Real estate and personal property taxes.....	73,480,870	-	73,480,870	-
Motor vehicle and other excise taxes.....	3,734,772	-	3,734,772	-
Hotel/motel taxes.....	748,707	-	748,707	-
Penalties and interest on taxes.....	351,613	-	351,613	-
Payments in lieu of taxes.....	28,292	-	28,292	-
Grants and contributions not restricted to specific programs.....	3,889,765	-	3,889,765	-
Unrestricted investment income.....	462,957	-	462,957	-
Other.....	100,411	-	100,411	-
Transfers, net .....	2,033,416	(2,033,416)	-	-
Total general revenues and transfers.....	84,830,803	(2,033,416)	82,797,387	-
Change in net assets.....	(7,261,344)	925,077	(6,336,267)	131,034
Net assets - beginning of year.....	77,887,130	30,941,771	108,828,901	1,837,187
Net assets - end of year.....	\$ 70,625,786	\$ 31,866,848	\$ 102,492,634	\$ 1,968,221

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2010

ASSETS	General	High School Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 19,007,418	\$ -	\$ 12,545,509	\$ 31,552,927
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	1,738,637	-	-	1,738,637
Real estate tax deferrals.....	269,881	-	-	269,881
Tax and trash liens.....	1,695,547	-	-	1,695,547
Motor vehicle and other excise taxes.....	271,151	-	-	271,151
Special assessments.....	91,865	-	170,630	262,495
Departmental and other.....	341,316	-	-	341,316
Intergovernmental.....	5,774,920	-	1,009,899	6,784,819
Restricted assets:				
Cash and cash equivalents.....	-	164,595	3,130,299	3,294,894
<b>TOTAL ASSETS.....</b>	<b>\$ 29,190,735</b>	<b>\$ 164,595</b>	<b>\$ 16,856,337</b>	<b>\$ 46,211,667</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 621,721	\$ 840,476	\$ 545,419	\$ 2,007,616
Accrued payroll.....	688,535	1,125	52,211	741,871
Tax refunds payable.....	4,424,604	-	-	4,424,604
Other liabilities.....	1,375,312	-	381,151	1,756,463
Deferred revenue.....	9,874,138	-	170,630	10,044,768
Due to other funds.....	419,447	-	-	419,447
Short-term notes payable.....	-	2,250,000	1,000,000	3,250,000
<b>TOTAL LIABILITIES.....</b>	<b>17,403,757</b>	<b>3,091,601</b>	<b>2,149,411</b>	<b>22,644,769</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations.....	1,766,928	-	-	1,766,928
Debt service.....	-	-	1,713,604	1,713,604
Perpetual permanent funds.....	-	-	13,959	13,959
Other specific purposes.....	-	-	2,472,012	2,472,012
Unreserved:				
Designated for stabilization.....	2,880,813	-	-	2,880,813
Designated for subsequent year's expenditures.....	2,660,759	-	-	2,660,759
Undesignated, reported in:				
General fund.....	4,478,478	-	-	4,478,478
Special revenue funds.....	-	-	8,625,037	8,625,037
Capital projects funds.....	-	(2,927,006)	1,859,517	(1,067,489)
Permanent funds.....	-	-	22,797	22,797
<b>TOTAL FUND BALANCES.....</b>	<b>11,786,978</b>	<b>(2,927,006)</b>	<b>14,706,926</b>	<b>23,566,898</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 29,190,735</b>	<b>\$ 164,595</b>	<b>\$ 16,856,337</b>	<b>\$ 46,211,667</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 (page 18).....	\$	23,566,898
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		94,996,459
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		10,044,768
In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(595,395)
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.....		(39,506,777)
Workers' compensation claims.....		(175,078)
Landfill postclosure.....		(578,731)
Net OPEB obligation.....		(15,629,046)
Compensated absences.....		(1,497,312)
Net assets of governmental activities (page 15).....	\$	<u>70,625,786</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	High School Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ 72,625,991	\$ -	\$ -	\$ 72,625,991
Motor vehicle and other excise taxes.....	3,735,199	-	-	3,735,199
Hotel/motel tax.....	748,707	-	-	748,707
Tax and trash liens.....	336,155	-	-	336,155
Payments in lieu of taxes.....	28,292	-	-	28,292
Trash disposal.....	903,950	-	-	903,950
Intergovernmental.....	20,130,374	-	7,248,583	27,378,957
Special assessments.....	22,221	-	26,450	48,671
Penalties and interest on taxes.....	351,613	-	-	351,613
Licenses and permits.....	1,256,719	-	-	1,256,719
Fines and forfeitures.....	154,309	-	81,145	235,454
Departmental and other.....	2,490,076	-	4,019,443	6,509,519
Contributions.....	-	-	280,151	280,151
Investment income.....	469,692	-	47,251	516,943
Other.....	100,411	-	-	100,411
<b>TOTAL REVENUES.....</b>	<b>103,353,709</b>	<b>-</b>	<b>11,703,023</b>	<b>115,056,732</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	3,889,685	-	1,110,143	4,999,828
Public safety.....	11,766,383	-	763,782	12,530,165
Education.....	43,675,639	2,796,488	10,591,916	57,064,043
Public works.....	7,465,974	-	1,773,183	9,239,157
Health and human services.....	927,235	-	260,438	1,187,673
Culture and recreation.....	568,693	-	1,066,223	1,634,916
Library.....	1,815,004	-	189,592	2,004,596
Pension benefits.....	14,518,621	-	-	14,518,621
Employee benefits.....	13,660,686	-	49,205	13,709,891
Property and liability insurance.....	431,162	-	-	431,162
State and county charges.....	1,362,563	-	-	1,362,563
Debt service:				
Principal.....	4,819,529	-	-	4,819,529
Interest.....	1,926,537	-	-	1,926,537
<b>TOTAL EXPENDITURES.....</b>	<b>106,827,711</b>	<b>2,796,488</b>	<b>15,804,482</b>	<b>125,428,681</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(3,474,002)</b>	<b>(2,796,488)</b>	<b>(4,101,459)</b>	<b>(10,371,949)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	2,716,997	30,000	143,653	2,890,650
Proceeds of bonds and notes.....	-	-	3,547,000	3,547,000
Sale of capital assets.....	-	-	19,231	19,231
Transfers out.....	(528,653)	-	(328,581)	(857,234)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>2,188,344</b>	<b>30,000</b>	<b>3,381,303</b>	<b>5,599,647</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(1,285,658)</b>	<b>(2,766,488)</b>	<b>(720,156)</b>	<b>(4,772,302)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (AS RESTATED).....</b>	<b>13,072,636</b>	<b>(160,518)</b>	<b>15,427,082</b>	<b>28,339,200</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 11,786,978</b>	<b>\$ (2,927,006)</b>	<b>\$ 14,706,926</b>	<b>\$ 23,566,898</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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 20).....	\$ (4,772,302)
<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. These amounts represent the related activity of the current period.</p>	
Capital outlays.....	8,089,933
Depreciation.....	(4,004,056)
<p>In the statement of activities, only the <i>gain/(loss)</i> on the disposal of capital assets is reported, whereas in the governmental funds the proceeds (if applicable) of the disposal are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.....</p>	
	(22,469)
<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>	
	(61,404)
<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 impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>	
Bond proceeds.....	(3,547,000)
Bond maturities.....	4,819,529
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>	
	71,892
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>	
Workers' compensation.....	80,752
Landfill postclosure.....	34,043
Net OPEB obligation.....	(7,896,303)
Compensated absences.....	(53,959)
	(7,815,467)
Changes in net assets of governmental activities (page 17).....	\$ (7,261,344)

See notes to basic financial statements.

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

JUNE 30, 2010

	<u>Business-Type Activities - Enterprise Funds</u>		
<b>ASSETS</b>	<u>Water and Sewer</u>	<u>Nonmajor Golf</u>	<u>Total</u>
<b>Current assets:</b>			
Cash and cash equivalents.....	\$ 4,480,829	\$ 205,826	\$ 4,686,655
Restricted cash and cash equivalents.....	2,629,984	11,118	2,641,102
<b>Receivables, net of allowance for uncollectible amounts:</b>			
Utility liens.....	167,919	-	167,919
User charges.....	3,437,603	-	3,437,603
Special assessments.....	145,453	-	145,453
Due from other funds.....	419,447	-	419,447
Inventory.....	-	3,857	3,857
Total current assets.....	<u>11,281,235</u>	<u>220,801</u>	<u>11,502,036</u>
<b>Noncurrent assets:</b>			
<b>Receivables, net of allowance for uncollectible amounts:</b>			
Special assessments.....	2,007,108	-	2,007,108
Intergovernmental.....	57,052	-	57,052
Capital assets not being depreciated.....	4,219,703	673,999	4,893,702
Capital assets, net of accumulated depreciation.....	<u>29,062,667</u>	<u>2,041,892</u>	<u>31,104,559</u>
Total noncurrent assets.....	<u>35,346,530</u>	<u>2,715,891</u>	<u>38,062,421</u>
Total assets.....	<u>46,627,765</u>	<u>2,936,692</u>	<u>49,564,457</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Warrants payable.....	94,859	33,646	128,505
Accrued payroll.....	34,548	-	34,548
Accrued interest.....	199,523	26,881	226,404
Compensated absences.....	4,920	-	4,920
Long-term bonds and notes payable.....	<u>1,766,117</u>	<u>195,930</u>	<u>1,962,047</u>
Total current liabilities.....	<u>2,099,967</u>	<u>256,457</u>	<u>2,356,424</u>
<b>Noncurrent liabilities:</b>			
Net OPEB obligation.....	322,587	33,974	356,561
Compensated absences.....	44,277	-	44,277
Long-term bonds and notes payable.....	<u>12,909,971</u>	<u>2,030,376</u>	<u>14,940,347</u>
Total noncurrent liabilities.....	<u>13,276,835</u>	<u>2,064,350</u>	<u>15,341,185</u>
Total liabilities.....	<u>15,376,802</u>	<u>2,320,807</u>	<u>17,697,609</u>
<b>FUND NET ASSETS</b>			
Invested in capital assets, net of related debt.....	21,293,318	500,703	21,794,021
Unrestricted.....	<u>9,957,645</u>	<u>115,182</u>	<u>10,072,827</u>
Total net assets.....	<u>\$ 31,250,963</u>	<u>\$ 615,885</u>	<u>\$ 31,866,848</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Nonmajor Golf</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services.....	\$ 12,814,029	\$ 573,313	\$ 13,387,342
<b>OPERATING EXPENSES</b>			
Cost of service and administration.....	3,459,121	577,444	4,036,565
MWRA assessment.....	4,219,801	-	4,219,801
Repairs and maintenance.....	242,600	18,445	261,045
Depreciation.....	1,285,902	83,297	1,369,199
<b>TOTAL OPERATING EXPENSES.....</b>	<b>9,207,424</b>	<b>679,186</b>	<b>9,886,610</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>3,606,605</b>	<b>(105,873)</b>	<b>3,500,732</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental.....	147,755	-	147,755
Investment income.....	42,875	-	42,875
Interest expense.....	(618,247)	(114,622)	(732,869)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(427,617)</b>	<b>(114,622)</b>	<b>(542,239)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>3,178,988</b>	<b>(220,495)</b>	<b>2,958,493</b>
<b>TRANSFERS</b>			
Transfers in.....	368,000	355,000	723,000
Transfers out.....	(2,756,416)	-	(2,756,416)
<b>TOTAL TRANSFERS.....</b>	<b>(2,388,416)</b>	<b>355,000</b>	<b>(2,033,416)</b>
<b>CHANGE IN FUND NET ASSETS.....</b>	<b>790,572</b>	<b>134,505</b>	<b>925,077</b>
<b>FUND NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>30,460,391</b>	<b>481,380</b>	<b>30,941,771</b>
<b>FUND NET ASSETS AT END OF YEAR.....</b>	<b>\$ 31,250,963</b>	<b>\$ 615,885</b>	<b>\$ 31,866,848</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds		
	Water and Sewer	Nonmajor Golf	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users.....	\$ 12,845,999	\$ 573,313	\$ 13,419,312
Payments to vendors.....	(6,127,472)	(442,656)	(6,570,128)
Payments to employees.....	(1,610,550)	(129,639)	(1,740,189)
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>5,107,977</b>	<b>1,018</b>	<b>5,108,995</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in.....	368,000	355,000	723,000
Transfers out.....	(2,756,416)	-	(2,756,416)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(2,388,416)</b>	<b>355,000</b>	<b>(2,033,416)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the issuance of bonds and notes.....	1,977,385	-	1,977,385
Intergovernmental revenues.....	63,315	-	63,315
Acquisition and construction of capital assets.....	(1,757,772)	-	(1,757,772)
Principal payments on bonds and notes.....	(2,237,370)	(195,931)	(2,433,301)
Interest expense.....	(552,890)	(116,856)	(669,746)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>(2,507,332)</b>	<b>(312,787)</b>	<b>(2,820,119)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income.....	42,875	-	42,875
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>255,104</b>	<b>43,231</b>	<b>298,335</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
(Includes \$2,647,060 and \$11,118 reported as restricted in the water and sewer and golf course enterprise funds, respectively).....	6,855,709	173,713	7,029,422
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
(Includes \$2,629,984 and \$11,118 reported as restricted in the water and sewer and golf course enterprise funds, respectively).....	\$ 7,110,813	\$ 216,944	\$ 7,327,757
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income (loss).....	\$ 3,606,605	\$ (105,873)	\$ 3,500,732
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	1,285,902	83,297	1,369,199
Changes in assets and liabilities:			
Utility liens.....	(64,770)	-	(64,770)
User charges.....	(55,682)	-	(55,682)
Special assessments.....	152,422	-	152,422
Inventory.....	-	(974)	(974)
Warrants payable.....	11,619	8,420	20,039
Accrued payroll.....	7,755	-	7,755
Net OPEB obligation.....	161,479	16,148	177,627
Accrued compensated absences.....	2,647	-	2,647
<b>Total adjustments.....</b>	<b>1,501,372</b>	<b>106,891</b>	<b>1,608,263</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 5,107,977</b>	<b>\$ 1,018</b>	<b>\$ 5,108,995</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Intergovernmental debt subsidies (MWPAT).....	\$ 84,440	-	\$ 84,440

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

ASSETS	Pension Trust Fund (As of 12/31/09)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 707,158	\$ 368,244	\$ 2,385,599
Investments.....	67,292,544	-	-
Receivables, net of allowance for uncollectible amounts:			
Departmental and other.....	2,667,760	-	72,580
Total assets.....	<u>70,667,462</u>	<u>368,244</u>	<u>2,458,179</u>
<b>LIABILITIES</b>			
Warrants payable.....	-	-	61,965
Accrued payroll.....	-	-	27,308
Liabilities due depositors.....	-	-	2,368,906
Total liabilities.....	<u>-</u>	<u>-</u>	<u>2,458,179</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	<u>\$ 70,667,462</u>	<u>\$ 368,244</u>	<u>\$ -</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Pension Trust Fund (As of 12/31/09)</u>	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Employer.....	\$ 5,418,151	\$ -
Employee.....	<u>2,443,828</u>	<u>-</u>
Total contributions.....	<u>7,861,979</u>	<u>-</u>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	8,170,664	-
Interest.....	<u>2,949,761</u>	<u>2,442</u>
Total investment income (loss).....	11,120,425	2,442
Less investment expense.....	<u>(242,317)</u>	<u>-</u>
Net investment income (loss).....	<u>10,878,108</u>	<u>2,442</u>
Intergovernmental.....	<u>358,486</u>	<u>-</u>
Transfers from other systems.....	<u>415,886</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>19,514,459</u>	<u>2,442</u>
<b>DEDUCTIONS</b>		
Administration.....	186,124	-
Retirement benefits and refunds.....	8,362,371	-
Transfers to other systems.....	677,269	-
Other.....	<u>-</u>	<u>6,500</u>
TOTAL DEDUCTIONS.....	<u>9,225,764</u>	<u>6,500</u>
CHANGE IN NET ASSETS.....	10,288,695	(4,058)
NET ASSETS AT BEGINNING OF YEAR.....	<u>60,378,767</u>	<u>372,302</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 70,667,462</u>	<u>\$ 368,244</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. General**

The basic financial statements 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 standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**B. Reporting Entity**

The Town of Natick, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include 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/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete.

**Blended Component Unit**

The Town has included the Natick Contributory Retirement System (System) as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the Town. Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

The System was established to provide retirement benefits to Town employees, the Natick Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, one member appointed by the Town's Board of Selectmen and one member appointed by the System's four other Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary funds financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 13 East Central Street, Natick, Massachusetts 01760.

**Discretely Presented Component Unit**

Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town has included the Morse Institute in Natick (Institute) as a discretely presented component unit because it is fiscally dependent on the Town and because the nature and significance of its relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading.

The Institute provides support to enhance the operations of the Town's public library and is exempt from federal and state income taxes as it is established under Section 501(c)(3) of the Internal Revenue Code.

The Institute issues separately audited cash basis financial statements, which is a comprehensive basis of accounting other than GAAP. The main difference is that the effect on earnings from accounts and pledges receivable as well as accounts payable and donated services are not recognized. Complete financial statements of the Institute, audited by other auditors, can be obtained directly from the Institute by contacting the Director at 14 East Central Street, Natick, Massachusetts 01760.

### Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

#### *South Middlesex Regional Vocational Technical High School District*

The Town is indirectly liable for the South Middlesex Regional Vocational Technical High School District (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's fiscal year 2010 assessment total approximately \$1,283,000. Separate audited financial statements may be obtained by contacting the District at 750 Winter Street, Framingham, Massachusetts 01702.

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

#### Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government and its discretely presented component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees. Likewise, the primary government is reported separately from legally separate discretely presented component unit for which the primary government is financially accountable.

#### 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.

Fiduciary funds are reported by fund type.

### *D. Measurement Focus, Basis of Accounting and Basis of Presentation*

#### Government-Wide and Fund Financial Statements

The government-wide and enterprise funds financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### 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 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 specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

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

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

### Fund Financial Statements

**Governmental funds** 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 the end of the fiscal year. 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 required to be accounted for in another fund.

The *high school project fund* is a capital project fund used to account for the design and construction of a new high school.

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 capital projects funds or permanent 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 funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support governmental programs.

**Proprietary funds** financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby 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 *water and sewer* enterprise fund is reported as a major fund and is used to account for the water and sewer activities.

The *golf course* enterprise fund is reported as a nonmajor fund and is used to account for the Sassamon Trace golf course activities.

**Fiduciary funds** 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 government's programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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 benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

#### ***E. Deposits 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. Fair value is based on quotations from a national securities and exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

#### Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

#### Alternative Investments

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

#### Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

#### *F. Accounts Receivable*

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

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

#### **Real Estate Taxes, 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 tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

#### **Motor Vehicle 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 to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

### User Charges (Water and Sewer)

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 annually in December and are 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.

### Special Assessments

Special assessments consist of sewer, sidewalk, street, RUST and Title V betterments and are recorded as receivables in the fiscal year accrued.

### Departmental and Other

Departmental and other receivables primarily consist primarily of ambulance, police details and trash ("Pay as you Throw" (PAYT) program) and are recorded as receivables in the fiscal year accrued.

### Intergovernmental

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

#### *G. Allowance for Uncollectible Amounts*

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other (excluding the PAYT program)

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments
- Department and other (PAYT program)

Intergovernmental receivables are considered 100% collectible.

#### *H. Inventories*

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

Inventories of the governmental activities, governmental funds and water and sewer enterprise fund are recorded as expenditures at the time of purchase. Such inventories are not material in total to the respective financial statements and therefore are not reported.

Inventories of the golf course enterprise fund are stated at weighted average cost.

**I. Restricted Assets**Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**J. Capital Assets**Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings, equipment, vehicles, library books and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings.....	20-40
Equipment.....	5-10
Vehicles.....	5-15
Library books.....	10
Infrastructure.....	10-50

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.

**K. Interfund Receivables and Payables**

During the course of its operations, transactions occur between and within 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.

*L. Interfund Transfers*

During the course of its operations, resources are permanently reallocated between and within funds.

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.

*M. Deferred Revenue*

Deferred revenue at the 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. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

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

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Debt service" represents amounts accumulated from the Massachusetts School Building Authority (MSBA) for future payment of long-term debt service costs associated with school construction. This amount will be amortized over the next 11 fiscal years.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

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 from the Massachusetts School Building Authority (MSBA) for future payment of long-term debt service costs associated with school construction. This amount will be amortized over the next 11 fiscal years.

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

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund balances have been "designated for" the following:

"Stabilization" represents amounts accumulated for general and/or capital purposes, which is subject to Town meeting approval.

"Subsequent year's expenditures" represents amounts appropriated to fund the fiscal year 2011 budget.

*O. Long-term Debt*Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line 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 when the debt is issued. 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.

*P. Investment Income*

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income derived from the water and sewer enterprise fund is retained in the fund. Investment income derived from the golf course enterprise fund is voluntarily assigned to the general fund.

### *Q. 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 upon employee retirements and resignations.

### *R. Post Retirement Benefits*

#### Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 13, the Town provides health and life insurance coverage for current and future retirees and their spouses.

### *S. 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.

### *T. 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 presented 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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### *A. Budgetary Information*

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. 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, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases or transfers between departments subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of 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 level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2010 approved budget for the general fund authorized approximately \$99,802,567 in appropriations and other amounts to be raised. During fiscal year 2010, supplemental appropriations totaling approximately \$1,948,820 were authorized.

The Comptroller's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

### B. Fund Deficits

At June 30, 2010, the following fund deficits exist:

Fund	Amount	Funding Source
<i>Governmental</i>		
High school project (major fund).....	\$ 2,927,006	Issuance of debt
Glen street drainage improvements.....	593,717	Issuance of debt
Brown school project.....	158,000	Issuance of debt
Parking garage.....	28,432	Issuance of debt
<i>Water/Sewer Enterprise</i>		
Phase 5 relining.....	\$ 504,789	Issuance of debt
Water phase 3/4 union, speen, pond.....	162,304	Issuance of debt

### NOTE 3 - DEPOSITS AND INVESTMENTS

#### *Town (excluding the Pension Trust Fund and Institute)*

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 the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of private purpose trust funds and the pension trust fund are held separately from other Town funds.

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, \$10,436,257 of the Town’s bank balance of \$46,742,962 was uninsured and uncollateralized.

Investments Summary

The Town’s investments at June 30, 2010 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Yrs) Less Than 1</u>
<u>Debt Securities:</u>		
External investment pools.....	\$ 212,667	\$ 212,667

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2010 the Town’s investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2010, the credit quality ratings of the Town’s debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings *</u>
		<u>Unrated</u>
External investment pools.....	\$ 212,667	\$ 212,667

\* Per the rating scale of Standard and Poor’s (a national credit rating organization)

*Pension Trust Fund (The System)*

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. As of December 31, 2009, the System was not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2009 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Mutual bond funds.....	\$ 13,939,726	\$ 13,939,726
<u>Other Investments:</u>		
Equity mutual funds.....	45,435,440	
Real estate investments.....	4,205,285	
Alternative investments.....	3,712,093	
Total other investments.....	<u>53,352,818</u>	
Total investments.....	<u>\$ 67,292,544</u>	

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System's policy regarding interest rate risk is that the duration of the fixed income portfolio shall be maintained within a range of +/- 15% of the duration of the fixed income benchmark designated in the "Manager Specific Guidelines".

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2009, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System's policy regarding credit risk is that the average quality of all bond holding should be maintained at A or better unless otherwise stated in the "Manager Specific Guidelines". As of December 31, 2009, the credit quality ratings of the System's debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings*</u>
		<u>Unrated</u>
Mutual bond funds.....	\$ 13,939,726	\$ 13,939,726

\* Per the rating scale of Standard and Poor's (a national credit rating organization)

*The Institute (Discretely Presented Component Unit)*

Investments Summary

The Institute's investments at June 30, 2010 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>
Corporate bonds.....	\$ 708,410
Common and preferred stock.....	893,125
Total investments.....	\$ 1,601,535

**NOTE 4 - ACCOUNTS RECEIVABLE**

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

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,769,738	\$ (31,101)	\$ 1,738,637
Real estate tax deferrals.....	269,881	-	269,881
Tax, trash and utility liens.....	1,695,547	-	1,695,547
Motor vehicle and other excise taxes.....	371,992	(100,841)	271,151
Special assessments.....	262,495	-	262,495
Departmental and other.....	3,273,681	(192,025)	3,081,656
Intergovernmental.....	6,784,819	-	6,784,819
	<u>\$ 14,428,153</u>	<u>\$ (323,967)</u>	<u>\$ 14,104,186</u>

At June 30, 2010, receivables for the water and sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Utility liens.....	\$ 167,919	\$ -	\$ 167,919
User charges.....	3,437,603	-	3,437,603
Special assessments.....	2,152,561	-	2,152,561
Intergovernmental.....	57,052	-	57,052
	<u>\$ 5,815,135</u>	<u>\$ -</u>	<u>\$ 5,815,135</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. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,464,129	\$ -	\$ 1,464,129
Real estate tax deferrals.....	269,881	-	269,881
Tax and utility liens.....	1,695,547	-	1,695,547
Motor vehicle and other excise taxes.....	271,151	-	271,151
Special assessments.....	91,865	170,630	262,495
Departmental and other.....	306,645	-	306,645
Intergovernmental (state school construction)....	5,651,595	-	5,651,595
Intergovernmental (other state and federal).....	123,325	-	123,325
Total.....	<u>\$ 9,874,138</u>	<u>\$ 170,630</u>	<u>\$ 10,044,768</u>

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, approximately \$917,000 of such assistance was received. Approximately \$9,043,000 will be received in future fiscal years. Of this amount, approximately \$3,391,000 represents reimbursement of long-term interest costs, and approximately \$5,652,000 represents reimbursement of approved construction costs. Accordingly, a \$5,651,595 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

## NOTE 5 – 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.....	\$ 10,124,124	\$ -	\$ -	\$ 10,124,124
Construction in progress.....	1,728,557	5,595,355	(556,835)	6,767,077
Total capital assets not being depreciated.....	11,852,681	5,595,355	(556,835)	16,891,201
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,493,561	16,180	-	2,509,741
Buildings.....	95,763,001	2,045,855	-	97,808,856
Machinery and equipment.....	4,227,036	339,196	(247,838)	4,318,394
Vehicles.....	6,544,857	67,665	(741,881)	5,870,641
Library books.....	2,162,674	171,553	-	2,334,227
Infrastructure.....	37,722,029	410,964	-	38,132,993
Total capital assets being depreciated.....	148,913,158	3,051,413	(989,719)	150,974,852
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,408,228)	(86,892)	-	(1,495,120)
Buildings.....	(36,964,056)	(2,099,125)	-	(39,063,181)
Machinery and equipment.....	(2,569,773)	(327,809)	246,323	(2,651,259)
Vehicles.....	(3,199,861)	(446,987)	720,927	(2,925,921)
Library books.....	(1,282,484)	(185,099)	-	(1,467,583)
Infrastructure.....	(24,408,386)	(858,144)	-	(25,266,530)
Total accumulated depreciation.....	(69,832,788)	(4,004,056)	967,250	(72,869,594)
Total capital assets being depreciated, net.....	79,080,370	(952,643)	(22,469)	78,105,258
Total governmental activities capital assets, net.....	\$ 90,933,051	\$ 4,642,712	\$ (579,304)	\$ 94,996,459

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activity- Water/Sewer Enterprise:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,255	\$ -	\$ -	\$ 379,255
Construction in progress.....	3,707,055	1,260,574	(1,127,181)	3,840,448
Total capital assets not being depreciated.....	<u>4,086,310</u>	<u>1,260,574</u>	<u>(1,127,181)</u>	<u>4,219,703</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	189,023	-	-	189,023
Machinery and equipment.....	680,487	-	-	680,487
Vehicles.....	1,049,672	284,963	(195,800)	1,138,835
Infrastructure.....	49,096,224	1,339,416	-	50,435,640
Total capital assets being depreciated.....	<u>51,015,406</u>	<u>1,624,379</u>	<u>(195,800)</u>	<u>52,443,985</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(33,079)	(9,451)	-	(42,530)
Machinery and equipment.....	(395,559)	(48,508)	-	(444,067)
Vehicles.....	(689,691)	(87,638)	195,800	(581,529)
Infrastructure.....	(21,172,887)	(1,140,305)	-	(22,313,192)
Total accumulated depreciation.....	<u>(22,291,216)</u>	<u>(1,285,902)</u>	<u>195,800</u>	<u>(23,381,318)</u>
Total capital assets being depreciated, net.....	<u>28,724,190</u>	<u>338,477</u>	<u>-</u>	<u>29,062,667</u>
Total water/sewer enterprise capital assets, net.....	<u>\$ 32,810,500</u>	<u>\$ 1,599,051</u>	<u>\$ (1,127,181)</u>	<u>\$ 33,282,370</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activity- Golf Course Enterprise:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 673,999	\$ -	\$ -	\$ 673,999
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,647,119	-	-	2,647,119
Buildings.....	120,513	-	-	120,513
Machinery and equipment.....	127,478	-	-	127,478
Total capital assets being depreciated.....	2,895,110	-	-	2,895,110
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(637,924)	(80,284)	-	(718,208)
Buildings.....	(4,519)	(3,013)	-	(7,532)
Machinery and equipment.....	(127,478)	-	-	(127,478)
Total accumulated depreciation.....	(769,921)	(83,297)	-	(853,218)
Total capital assets being depreciated, net.....	2,125,189	(83,297)	-	2,041,892
Total golf course enterprise capital assets, net.....	\$ 2,799,188	\$ (83,297)	\$ -	\$ 2,715,891

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

**Governmental Activities:**

General government.....	\$ 139,949
Public safety.....	580,649
Education.....	1,628,840
Public works.....	1,275,790
Health and human services.....	1,600
Culture and recreation.....	192,129
Library.....	185,099

Total depreciation expense - governmental activities..... \$ 4,004,056

**Business-Type Activities:**

Water and sewer.....	\$ 1,285,902
Golf.....	83,297

Total depreciation expense - business-type activities..... \$ 1,369,199

**NOTE 6 - OPERATING LEASES**

*Lessee*

The Town is committed under several operating leases for office equipment, a parking lot and a modular building used as a clubhouse and administrative building at the golf course. During fiscal year 2010, the Town paid approximately \$140,000 related to these leases, which are accounted for in the general fund and golf course enterprise fund. Future minimum lease payments are as follows:

*Governmental Activities*

<u>Fiscal Year</u>	<u>Payment</u>
2011.....	\$ 50,000

*Business-Type Activities*

<u>Fiscal Year</u>	<u>Payment</u>
2011.....	\$ 85,589
2012.....	76,450
2013.....	62,997
2014.....	64,887

*Lessor*

The Town leases buildings governed by separate agreements. During fiscal year 2010, the Town received approximately \$279,000 related to these leases. Future minimum lease payments to be received are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2011.....	\$ 177,016
2012.....	9,000

**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Receivables and payables between funds at June 30, 2010, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer Fund.....	General Fund.....	\$ <u>419,447</u> (1)

(1) Represents over-allocations of retirement benefits in previous fiscal years.

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

Transfers Out:	Transfers In:					Total
	General Fund	High School Project Major Fund	Nonmajor Governmental Funds	Water & Sewer Enterprise Fund	Golf Enterprise Fund	
General Fund.....	\$ -	\$ 30,000	\$ 143,653	\$ -	\$ 355,000	\$ 528,653 (1)
Nonmajor Governmental Funds.....	210,581	-	-	118,000	-	328,581 (2)
Water & Sewer Enterprise Fund.....	2,506,416	-	-	250,000	-	2,756,416 (3)
	<u>\$ 2,716,997</u>	<u>\$ 30,000</u>	<u>\$ 143,653</u>	<u>\$ 368,000</u>	<u>\$ 355,000</u>	<u>\$ 3,613,650</u>

(1) Represents the paydown of BANs in the high school project major fund (\$30,000) and in various capital project funds (\$143,653). Also represents funding of debt service (\$355,000) for the Sassamon Trace Golf Course.

(2) Represents budgeted transfers from parking meters (\$80,000); Title V (\$7,684) and MSBA (\$122,897). Also represents a transfer from the receipts reserved fund (\$118,000) to the water/sewer enterprise fund.

(3) Represents budgeted transfer of indirect costs (\$2,506,416). Also represents a transfer from the operating fund of the water & sewer enterprise fund (\$250,000) to a water & sewer capital improvements fund.

#### NOTE 8 - 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 anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

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

**Notes Payable – Governmental Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010
BAN	Kennedy school roof repair.....	6/30/09	6/30/10	1.75%	\$ 850,000	\$ -	\$ (850,000)	\$ -
BAN	Police station/town hall HVAC.....	6/30/09	6/30/10	1.75%	410,000	-	(410,000)	-
BAN	Memorial school DDC system.....	6/30/09	6/30/10	1.75%	375,000	-	(375,000)	-
BAN	Memorial school kitchen.....	6/30/09	6/30/10	1.75%	350,000	-	(350,000)	-
BAN	Kennedy school kitchen.....	6/30/09	6/30/10	1.75%	350,000	-	(350,000)	-
BAN	High school feasibility.....	6/30/09	6/30/10	1.75%	280,000	-	(280,000)	-
BAN	Equipment - trash packer.....	6/30/09	6/30/10	1.75%	175,000	-	(175,000)	-
BAN	Equipment - sidewalk tractor.....	6/30/09	6/30/10	1.75%	130,000	-	(130,000)	-
BAN	High school feasibility.....	6/30/10	6/15/11	1.50%	-	2,250,000	-	2,250,000
BAN	Community center plans.....	6/30/10	6/15/11	1.50%	-	1,000,000	-	1,000,000
Total.....					\$ 2,920,000	\$ 3,250,000	\$ (2,920,000)	\$ 3,250,000

**Notes Payable – Enterprise Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010
BAN	Water main relining.....	6/30/09	6/30/10	1.75%	\$ 600,000	\$ -	\$ (600,000)	\$ -

**NOTE 9 – LONG-TERM OBLIGATIONS**

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit”. 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”.

In prior fiscal years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account’s assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2010, \$5,000,000 of bonds outstanding from this advance refunding is considered defeased.

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

**Bonds and Notes Payable – Governmental Funds**

Project	Interest Rate	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Morse Institute Library.....	5.26%	\$ 905,000	\$ -	\$ (155,000)	\$ 750,000
Landfill Capping.....	5.05%	35,000	-	(35,000)	-
Landfill Capping*.....	5.30%	75,145	-	(15,145)	60,000
Oil Tank Removal / Remediation*.....	5.29%	260,254	-	(45,254)	215,000
Morse Institute Library*.....	5.30%	1,285,188	-	(225,188)	1,060,000
Municipal Complex (Town Hall / Safety)*.....	5.29%	285,398	-	(55,398)	230,000
Landfill Capping.....	4.73%	1,250,000	-	(125,000)	1,125,000
Morse Institute Library.....	4.67%	1,000,000	-	(125,000)	875,000
Municipal Complex (Town Hall / Safety).....	4.67%	4,000,000	-	(500,000)	3,500,000
Municipal Complex (Town Hall / Safety).....	4.87%	4,500,000	-	(500,000)	4,000,000
Landfill Capping (Net of Surplus to G.C.).....	4.93%	1,227,763	-	(114,069)	1,113,694
Septic Title V (MWPAT) T5-97-1026.....	0.00%	84,344	-	(7,684)	76,660
Storm Water (MWPAT).....	0.00%	121,585	-	(29,149)	92,436
Land Acquisition*.....	3.12%	417,600	-	(89,900)	327,700
Fuel Storage (Residential)*.....	3.12%	252,000	-	(54,250)	197,750
Fuel Storage (Municipal)*.....	3.12%	50,400	-	(10,850)	39,550
Septic Title V (MWPAT) T5-97-1026-1.....	0.00%	71,614	-	(5,127)	66,487
Capital Improvements (FY2005).....	3.97%	14,000	-	(14,000)	-
Capital Equipment (FY2005).....	4.50%	170,000	-	(170,000)	-
Capital Equipment (FY2006) ATM 2005.....	3.90%	70,000	-	(35,000)	35,000
Capital Equipment (FY2006) FTM 2005.....	3.90%	52,000	-	(26,000)	26,000
Capital Equipment (FY2007) ATM 2006.....	3.88%	75,000	-	(27,000)	48,000
Capital Equipment (FY2007) ATM 2006.....	3.88%	9,000	-	(3,000)	6,000
Lilja School*.....	5.30%	114,705	-	(19,705)	95,000
Brown School*.....	5.33%	379,310	-	(89,310)	290,000
Lilja School.....	4.70%	225,000	-	(25,000)	200,000
Lilja School.....	4.70%	3,524,000	-	(396,000)	3,128,000
Lilja School.....	4.94%	165,000	-	(15,000)	150,000
Bennet-Hemenway School.....	5.15%	7,920,000	-	(660,000)	7,260,000
Wilson Middle School.....	4.14%	7,375,000	-	(495,000)	6,880,000
Wilson Middle School.....	4.14%	975,000	-	(65,000)	910,000
Kennedy Middle School.....	3.30%	500,000	-	(100,000)	400,000
School Capital Improvements (FY2005).....	3.98%	110,000	-	(110,000)	-
M.P.L. of 2008-Building remodeling.....	3.38-5.00%	845,000	-	(95,000)	750,000
M.P.L. of 2008-Surface drain.....	3.38-5.00%	950,000	-	(115,000)	835,000
M.P.L. of 2008-Departmental Equipment-Fire.....	3.38-5.00%	355,000	-	(45,000)	310,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	435,000	-	(90,000)	345,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	35,000	-	(15,000)	20,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	30,000	-	(10,000)	20,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	30,000	-	(10,000)	20,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	280,000	-	(70,000)	210,000
M.P.L. of 2008-Departmental Equipment.....	3.38-5.00%	170,000	-	(20,000)	150,000
Septic Title V (MWPAT) T5-97-1026-B.....	0.00%	150,000	-	(7,500)	142,500
M.P.L. of 2010-Departmental Equipment.....	2.00-2.75%	-	150,000	-	150,000
M.P.L. of 2010-Departmental Equipment.....	2.00-3.25%	-	117,000	-	117,000
M.P.L. of 2010-Building Remodeling - School.....	2.00-3.25%	-	1,200,000	-	1,200,000
M.P.L. of 2010-Building Remodeling - School.....	2.00-3.25%	-	1,670,000	-	1,670,000
M.P.L. of 2010-Building Remodeling - Municipal.....	2.00-3.25%	-	410,000	-	410,000
Total governmental funds.....		\$ 40,779,306	\$ 3,547,000	\$ (4,819,529)	\$ 39,506,777

\* Represents amounts that were refunded during a prior fiscal year

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 4,832,471	\$ 1,739,974	\$ 6,572,445
2012.....	4,736,388	1,533,534	6,269,922
2013.....	4,641,721	1,328,358	5,970,079
2014.....	4,491,549	1,131,682	5,623,231
2015.....	4,126,549	939,263	5,065,812
2016.....	3,671,411	752,622	4,424,033
2017.....	3,616,411	578,367	4,194,778
2018.....	2,921,411	419,826	3,341,237
2019.....	1,820,411	291,367	2,111,778
2020.....	1,685,411	205,869	1,891,280
2021.....	1,227,602	133,944	1,361,546
2022.....	567,721	74,622	642,343
2023.....	567,721	50,081	617,802
2024.....	562,500	24,975	587,475
2025.....	7,500	-	7,500
2026.....	7,500	-	7,500
2027.....	7,500	-	7,500
2028.....	7,500	-	7,500
2029.....	7,500	-	7,500
Total.....	\$ <u>39,506,777</u>	\$ <u>9,204,484</u>	\$ <u>48,711,261</u>

**Bonds and Notes Payable - Enterprise Fund (Water and Sewer)**

Project	Interest Rate	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Water Treatment Plant*	3.25-3.75%	\$ 195,000	\$ -	\$ (30,000)	\$ 165,000
Water Treatment Plant	4.73%	605,000	-	(62,000)	543,000
Sewer (Pleasant, Rockwood, etc.)	4.71%	121,000	-	(12,000)	109,000
Sewer (Pleasant, Eliot, Union, etc.)	4.92%	390,000	-	(40,000)	350,000
Sewer ( Union, St)	4.90%	305,000	-	(30,000)	275,000
Water (Lakeshore Dr)	4.94%	275,000	-	(25,000)	250,000
Water (Lakeshore Dr)	5.14%	300,000	-	(25,000)	275,000
Sewer (Boden Ln & Water, Lincoln, etc.)	5.09%	580,000	-	(90,000)	490,000
Water Meters	4.19%	540,000	-	(180,000)	360,000
Water Relining	4.19%	210,000	-	(70,000)	140,000
Water Relining	4.19%	420,000	-	(140,000)	280,000
Sewer (Lakeshore Rd)	4.71%	260,000	-	(20,000)	240,000
Sewer (Leach Ln)	4.73%	130,000	-	(10,000)	120,000
Water Elm Bank *Refunded	2.96%	570,000	-	(150,000)	420,000
Water Meters	3.30%	175,000	-	(35,000)	140,000
Sewer I&I (MWRA)	0.00%	67,650	-	(67,650)	-
Sewer (Speen St, Park Ave)	4.03%	1,890,000	-	(105,000)	1,785,000
Water Treatment (MWPAT) *Refunded	2.00%	4,472,423	-	(215,720)	4,256,703
Water Mains - Lining	3.38-5.00%	2,700,000	-	(300,000)	2,400,000
M.P.L. of 2008-Departmental Equipment	3.38-5.00%	80,000	-	(10,000)	70,000
M.P.L. of 2008-Departmental Equipment	3.38-5.00%	50,000	-	(20,000)	30,000
M.P.L. of 2010-Sewer	2.00-3.25%	-	300,000	-	300,000
M.P.L. of 2010-Departmental Equipment - Sewer	2.00-3.25%	-	250,000	-	250,000
M.P.L. of 2010-Water Mains - Lining	2.00-3.25%	-	600,000	-	600,000
M.P.L. of 2010-Well	2.00-3.25%	-	250,000	-	250,000
M.P.L. of 2010-Water Departmental Equipment	2.00-3.25%	-	500,000	-	500,000
Sewer (MWRA)	0.00%	-	77,385	-	77,385
Total Water/Sewer enterprise fund		\$ 14,336,073	\$ 1,977,385	\$ (1,637,370)	\$ 14,676,088

\* Represents amounts that were refunded during a prior fiscal year

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

Fiscal Year	Principal	Interest	Total
2011.....	\$ 1,766,117	\$ 599,995	\$ 2,366,112
2012.....	1,717,138	527,887	2,245,025
2013.....	1,313,388	453,749	1,767,137
2014.....	1,182,500	398,214	1,580,714
2015.....	1,139,915	352,736	1,492,651
2016.....	1,122,294	301,231	1,423,525
2017.....	1,132,041	252,803	1,384,844
2018.....	1,141,787	202,123	1,343,910
2019.....	842,408	151,477	993,885
2020.....	777,155	115,157	892,312
2021.....	511,902	82,817	594,719
2022.....	461,522	58,363	519,885
2023.....	441,269	34,634	475,903
2024.....	455,889	15,251	471,140
2025.....	460,763	10,893	471,656
2026.....	105,000	6,536	111,536
2027.....	105,000	2,179	107,179
<b>Total.....</b>	<b>\$ 14,676,088</b>	<b>\$ 3,566,045</b>	<b>\$ 18,242,133</b>

**Bonds and Notes Payable - Enterprise Fund (Golf)**

Project	Interest Rate	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
Municipal Golf Course.....	4.73%	\$ 1,925,000	\$ -	\$ (150,000)	\$ 1,775,000
Surplus Proceeds from Landfill to Golf Course.....	4.93%	393,814	-	(36,528)	357,286
Surplus Proceeds from Landfill to Golf Course.....	4.93%	103,423	-	(9,403)	94,020
<b>Total Golf enterprise fund.....</b>		<b>\$ 2,422,237</b>	<b>\$ -</b>	<b>\$ (195,931)</b>	<b>\$ 2,226,306</b>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$ 195,930	\$ 108,224	\$ 304,154
2012.....	195,930	99,402	295,332
2013.....	195,930	90,384	286,314
2014.....	194,788	81,322	276,110
2015.....	194,788	71,855	266,643
2016.....	194,788	62,054	256,842
2017.....	194,788	52,236	247,024
2018.....	189,788	42,408	232,196
2019.....	189,788	32,817	222,605
2020.....	189,788	23,216	213,004
2021.....	145,000	14,790	159,790
2022.....	145,000	7,395	152,395
<b>Total.....</b>	<b>\$ 2,226,306</b>	<b>\$ 686,103</b>	<b>\$ 2,912,409</b>

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2010, the Town's subsidy totaled approximately \$104,000. Future subsidies total approximately \$928,000. The amount of MWPAT bonds outstanding at June 30, 2010, totaled \$4,634,786.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan (payable in five equal annual installments). At June 30, 2010, the outstanding principal amount of these loans totaled \$77,385.

During fiscal year 2010, the Town issued \$5,447,000 of general obligation bonds for building remodeling, departmental equipment and water mains lining.

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:

<u>Purpose</u>	<u>Amount</u>
High School Construction.....	\$ 86,740,000
Community Senior Center Cons...	10,000,000
High school feasibility.....	2,000,000 *
Community center plans.....	1,000,000 *
Pipe relining.....	800,000
Capital Equipment.....	640,000
Parking garage.....	540,000
Sewer MWRA.....	436,865
Fire engine.....	400,000
High school feasibility.....	250,000 *
Charles River dam.....	87,000
Voter reader machines.....	76,000
Updates to fire station.....	<u>600</u>
 Total.....	 <u>\$ 102,970,465</u>

\* Represents short-term debt outstanding as of June 30, 2010

Changes in Long-Term Liabilities

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

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 40,779,306	\$ 3,547,000	\$ (4,819,529)	\$ 39,506,777	\$ 4,832,471
Workers' compensation claims....	255,830	-	(80,752)	175,078	87,539
Landfill closure.....	612,774	-	(34,043)	578,731	34,043
Net OPEB obligation.....	7,732,743	11,242,175	(3,345,872)	15,629,046	-
Compensated absences.....	1,443,353	53,959	-	1,497,312	149,731
<b>Total.....</b>	<b>\$ 50,824,006</b>	<b>\$ 14,843,134</b>	<b>\$ (8,280,196)</b>	<b>\$ 57,386,944</b>	<b>\$ 5,103,784</b>
<b>Business-type Activities:</b>					
Bonds and notes payable.....	\$ 16,758,310	\$ 1,977,385	\$ (1,833,301)	\$ 16,902,394	\$ 1,962,047
Net OPEB obligation.....	178,934	252,891	(75,264)	356,561	-
Compensated absences.....	46,550	2,647	-	49,197	4,920
<b>Total.....</b>	<b>\$ 16,983,794</b>	<b>\$ 2,232,924</b>	<b>\$ (1,908,565)</b>	<b>\$ 17,308,152</b>	<b>\$ 1,966,967</b>

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

**NOTE 10 - RISK FINANCING**

The Town 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 Town carries commercial insurance.

The Town provides health insurance through its participation in the West Suburban Health Group (Group), a non-profit trust comprised of 11 towns, one school district and two educational collaboratives. The Town recognizes the cost of providing health insurance by recording its share (depending on the plan, contribution rates range between 50% and 90%) of insurance premiums paid to the Group in the general fund in the fiscal year paid. The purpose of the Group is to pay medical claims of its members' employees and their covered dependents.

The Town participates in a premium-based workers' compensation plan. In prior years, the Town was self-insured for workers' compensation and is liable for the payment of certain claims from those periods. The claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type. The estimated liability at June 30, 2010, totaled \$175,078.

**NOTE 11 - PENSION PLAN**

*Plan Description* – The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Natick Contributory 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 Commonwealth’s Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases 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 authorized by the Natick Contributory Retirement Board and are borne by the System. The System issues a publicly available 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 13 East Central Street, Natick, Massachusetts 01760.

*Plan Membership* - At December 31, 2009, the System’s membership consists of the following:

Active members.....	588
Inactive members.....	65
Retirees and beneficiaries currently receiving benefits...	<u>380</u>
 Total.....	 <u><u>1,033</u></u>

*Funding Policy* – Chapter 32 of MGL governs the contributions of plan members and the Town. 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 actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

*Annual Pension Cost* – The Town’s contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were \$5,335,519, \$5,255,414, and \$5,460,965, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 98.5% of the total. At June 30, 2010, the Town did not have a net pension obligation.

*Funded Status and Funding Progress* – The funded status of the plan at January 1, 2008, the most recent actuarial valuation date, is as follows:

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	\$ 90,885,080	\$ 131,268,314	\$ 40,383,234	69.2%	\$ 25,775,476	156.7%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2008
Actuarial cost method:	Entry age normal
Amortization method:	4.50% increasing
Remaining amortization period:	18 years from July 1, 2008
Asset valuation method:	5 year smoothing of market value returns greater (less) than expected
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.00%
Projected salary increases:	Based on years of service, ranging from 7.00% decreasing to 4.75% after 9 years of service for Group 1 employees, ranging from 7.00% decreasing to 5.00% after 7 years for service for Group 2 employees and ranging from 8.00% decreasing to 5.25% after 8 years for Group 4 employees
Cost of living adjustments:	3.00% of first \$12,000 of retirement income

**Legally Required Reserve Accounts** - The balance in the System's legally required reserves as of December 31, 2009 are as follows:

Description	Amount	Purpose
Annuity Savings Fund...	\$ 25,260,664	Active members' contribution balance
Annuity Reserve Fund..	8,003,596	Retired members' contribution account
Pension Reserve Fund...	31,270,976	Amounts appropriated to fund future retirement
Pension Fund.....	<u>6,132,226</u>	Remaining net assets
Total.....	<u>\$ 70,667,462</u>	

**Noncontributory Retirement Allowance** - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2010 totaled approximately \$91,000.

#### NOTE 12 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators 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. The amount of these on-behalf payments totaled approximately \$9,275,000 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 13 - OTHER POST EMPLOYMENT BENEFITS**

*Plan Description* - The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2008, the latest actuarial valuation, is as follows:

Active employees.....	1,179
Retired employees and spouses.....	<u>788</u>
Total.....	<u><u>1,967</u></u>

*Funding Policy* - The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 50%, respectively. The Plan members and Town each contribute 50% towards a \$5,000 term life insurance premium. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

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

	<u>Amount</u>
Annual required contribution.....	\$ 11,509,898
Interest on net OPEB obligation.....	316,467
Adjustment to annual required contribution.....	<u>(331,299)</u>
Annual OPEB cost.....	11,495,066
Contributions made.....	<u>(3,421,136)</u>
Increase in net OPEB obligation.....	8,073,930
Net OPEB obligation at beginning of year.....	<u>7,911,677</u>
Net OPEB obligation at end of year.....	<u><u>\$ 15,985,607</u></u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2009*.....	\$ 10,908,261	27.5%	\$ 7,911,677
June 30, 2010.....	11,495,066	29.8%	15,985,607

\* Transition year

**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2008, the most recent actuarial valuation, was as follows:

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)
07/01/08	\$ -	\$ 111,743,502	\$ 111,743,502	-	\$ 59,832,150	186.8%

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.

**Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2008
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years at July 1, 2008
Interest discount rate:	4.00%
Healthcare/Medical cost trend rate:	10.00% beginning in 2008 to an ultimate level of 5.00% in 2013
Projected salary increases:	2.50% annually

*Allocation of AOPEBC* - AOPEBC costs were allocated to the Town's functions as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 459,803
Public safety.....	2,195,558
Education.....	7,506,278
Public works.....	517,278
Health and human services.....	149,436
Culture and recreation.....	126,446
Library.....	287,377
Total AOPEBC - governmental activities.....	<u>11,242,175</u>
<b>Business-Type Activities:</b>	
Water and sewer.....	229,901
Golf.....	22,990
Total AOPEBC - business-type activities.....	<u>252,891</u>
Total AOPEBC.....	<u>\$ 11,495,066</u>

#### NOTE 14 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling approximately \$103,000,000 for water main projects, roadway projects, high school construction projects, community center plans and the purchase of departmental equipment.

#### NOTE 15 - LANDFILL POSTCLOSURE CARE

State and federal laws and regulations required the Town to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1988 and, accordingly, was subsequently capped and funded via long-term debt. The Town has reflected \$578,731 as the estimated landfill post-closure care liability at June 30, 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### NOTE 16 - CONTINGENCIES

Various other 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 of the Town at June 30, 2010.

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.

**NOTE 17 - PRIOR PERIOD RECLASSIFICATIONS**

The beginning fund balance of the nonmajor governmental funds has been restated from \$15,266,564 to \$15,427,082 and the beginning fund balance of the high school project major fund has been restated from \$0 to (\$160,518) to reflect the reclassification of the high school project fund from a nonmajor governmental fund to a major governmental fund. Additionally, the beginning fund balance of the general fund has been restated from \$10,198,558 to \$13,072,636 and the beginning fund balance of the stabilization major fund has been restated from \$2,874,078 to \$0 to reflect the reclassification of the stabilization major fund to the general fund.

**NOTE 18 - IMPLEMENTATION OF GASB PRONOUNCEMENTS**

- Statement #51, *Accounting and Financial Reporting for Intangible Assets*. The implementation of this Statement had no impact on the financial statements.
- Statement #53, *Accounting and Financial Reporting for Derivative Investments*. The implementation of this Statement had no impact on the financial statements.
- Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this Statement had no impact on the financial statements.
- Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The implementation of this Statement had no impact on the financial statements.
- Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The implementation of this Statement had no impact on the financial statements.

**NOTE 19 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement #54, *Fund Balance Reporting and Governmental Type Definitions*, which is required to be implemented during fiscal year 2011. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is required to be implemented during fiscal year 2012. This pronouncement will not impact the basic financial statements.
- Statement #59, *Financial Instruments Omnibus*, which is required to be implemented during fiscal year 2011. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented on their respective due dates.

*Required Supplementary Information*

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS OF ACCOUNTING)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ -	\$ 74,798,909	\$ 950,689	\$ 75,749,598
Motor vehicle and other excise taxes.....	-	3,600,000	-	3,600,000
Hotel/motel tax.....	-	800,000	-	800,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	32,500	-	32,500
Trash disposal.....	-	965,272	-	965,272
Intergovernmental.....	-	10,563,544	-	10,563,544
Special assessments.....	-	15,000	-	15,000
Penalties and interest on taxes.....	-	250,000	-	250,000
Licenses and permits.....	-	1,050,000	-	1,050,000
Fines and forfeitures.....	-	210,000	-	210,000
Departmental and other.....	-	2,125,000	-	2,125,000
Investment income.....	-	350,000	-	350,000
Other.....	-	-	-	-
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>94,760,225</b>	<b>950,689</b>	<b>95,710,914</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	551,490	4,480,612	(133,764)	4,898,338
Public safety.....	279,162	11,614,962	1,202,189	13,096,313
Education.....	379,619	43,735,861	2	44,115,482
Public works.....	796,941	7,347,776	147,382	8,292,099
Health and human services.....	1,785	986,509	45,000	1,033,294
Culture and recreation.....	501	573,716	585	574,802
Library.....	-	1,845,703	316	1,846,019
Pension benefits.....	-	5,271,467	-	5,271,467
Employee benefits.....	43,029	14,395,784	(154,999)	14,283,814
Property and liability insurance.....	-	496,150	5,000	501,150
State and county charges.....	-	1,540,299	-	1,540,299
Debt service:				
Principal.....	-	5,126,887	(93,550)	5,033,337
Interest.....	-	2,031,841	(42,994)	1,988,847
<b>TOTAL EXPENDITURES.....</b>	<b>2,052,527</b>	<b>99,447,567</b>	<b>975,167</b>	<b>102,475,261</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(2,052,527)</b>	<b>(4,687,342)</b>	<b>(24,478)</b>	<b>(6,764,347)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	3,316,997	350,751	3,667,748
Transfers out.....	-	(355,000)	(973,653)	(1,328,653)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>2,961,997</b>	<b>(622,902)</b>	<b>2,339,095</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(2,052,527)</b>	<b>(1,725,345)</b>	<b>(647,380)</b>	<b>(4,425,252)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>12,050,126</b>	<b>12,050,126</b>	<b>12,050,126</b>	<b>12,050,126</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ 9,997,599</b>	<b>\$ 10,324,781</b>	<b>\$ 11,402,746</b>	<b>\$ 7,624,874</b>

See notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 75,871,102	\$ -	\$ 75,871,102	\$ 121,504
3,739,367	-	3,739,367	139,367
748,707	-	748,707	(51,293)
336,155	-	336,155	336,155
28,292	-	28,292	(4,208)
903,950	-	903,950	(61,322)
10,835,843	-	10,835,843	272,299
22,221	-	22,221	7,221
351,613	-	351,613	101,613
1,256,719	-	1,256,719	206,719
154,309	-	154,309	(55,691)
2,490,076	-	2,490,076	365,076
462,957	-	462,957	112,957
100,411	-	100,411	100,411
<u>97,301,722</u>	<u>-</u>	<u>97,301,722</u>	<u>1,590,808</u>
3,889,685	516,736	4,406,421	491,917
12,717,134	124,058	12,841,192	255,121
43,675,639	365,323	44,040,962	74,520
7,465,974	725,892	8,191,866	100,233
927,235	1,249	928,484	104,810
568,693	2,519	571,212	3,590
1,815,004	639	1,815,643	30,376
5,243,247	-	5,243,247	28,220
13,660,686	23,012	13,683,698	600,116
431,162	7,500	438,662	62,488
1,362,563	-	1,362,563	177,736
4,812,367	-	4,812,367	220,970
1,914,542	-	1,914,542	74,305
<u>98,483,931</u>	<u>1,766,928</u>	<u>100,250,859</u>	<u>2,224,402</u>
<u>(1,182,209)</u>	<u>(1,766,928)</u>	<u>(2,949,137)</u>	<u>3,815,210</u>
3,667,748	-	3,667,748	-
<u>(1,328,653)</u>	<u>-</u>	<u>(1,328,653)</u>	<u>-</u>
<u>2,339,095</u>	<u>-</u>	<u>2,339,095</u>	<u>-</u>
1,156,886	(1,766,928)	(610,042)	3,815,210
<u>12,050,126</u>	<u>12,050,126</u>	<u>12,050,126</u>	<u>-</u>
\$ <u>13,207,012</u>	\$ <u>10,283,198</u>	\$ <u>11,440,084</u>	\$ <u>3,815,210</u>

**PENSION PLAN SCHEDULES**

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

**SCHEDULES OF FUNDING PROGRESS (SYSTEM)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ 90,885,080	\$ 131,268,314	\$ 40,383,234	69.2%	\$ 25,775,476	156.7%
01/01/06	79,234,306	118,903,286	39,668,980	66.6%	24,814,583	159.9%
01/01/04	70,246,877	109,024,236	38,777,359	64.4%	22,170,379	174.9%
01/01/02	68,985,592	100,572,515	31,586,923	68.6%	22,056,144	143.2%
01/01/00	64,669,153	89,688,360	25,019,207	72.1%	18,611,143	134.4%
01/01/99	63,402,638	86,939,398	23,536,760	72.9%	17,641,644	133.4%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)**

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2004	\$ 4,481,219	100
2005	4,841,775	100
2006	5,059,655	100
2007	5,541,638	100
2008	5,334,374	100
2009	5,418,151	100

The following schedule provides information related to the Town's portion of the System's ARC:

**TOWN SHARE OF SYSTEM ARC**

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2005	\$ 4,421,412	100	98.7%
2006	4,769,061	100	98.5%
2007	4,983,669	100	98.5%
2008	5,460,965	100	98.5%
2009	5,255,414	100	98.5%
2010	5,335,519	100	98.5%

**NOTE A - BUDGETARY - GAAP RECONCILIATION**

For budgetary financial reporting purposes, the Uniform Massachusetts 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:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 97,301,722	\$ 100,250,859	\$ 2,339,095
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(128,245)	-	-
Net change in recording tax refunds payable.....	(3,274,222)	-	-
To record MWPAT debt service subsidy.....	19,157	19,157	-
Net change in recording receivables.....	153,186	-	-
Net change in court judgments.....	-	(950,751)	-
To record activity for MTRS on-behalf payments.....	9,275,374	9,275,374	-
To record encumbrances and continuing appropriations.....	-	(1,766,928)	-
Sub-total.....	103,346,972	106,827,711	2,339,095
<u>Reclassifications</u>			
Stabilization investment income.....	6,737	-	-
Stabilization transfers, net.....	-	-	(150,751)
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 103,353,709</u>	<u>\$ 106,827,711</u>	<u>\$ 2,188,344</u>