

TOWN OF BERLIN, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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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 Berlin, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Berlin, Massachusetts, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Berlin, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2011, on our consideration of the Town of Berlin, 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 to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 12) and budgetary comparison and pension information (located on pages 39 through 43) 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.

A handwritten signature in black ink that reads "Bob, TG & Co, LLC". The signature is written in a cursive, stylized font.

February 18, 2011

Management's Discussion and Analysis

As management of the Town of Berlin, 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 \$18,235,201 (net assets). Of this amount, \$6,418,515 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$587,446.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$5,422,535 an increase of \$220,375 in comparison with the prior year. Approximately \$4,275,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$1,204,139, or 12.9 percent of total general fund expenditures and transfers out.
- The Town's total bonded debt decreased by \$264,617 during the fiscal year; \$1,760,000 of general obligation refunding bonds were issued to retire \$1,800,000 of previously issued town hall renovation bonds.

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, repayment of long-term debt, etc.).

The government-wide financial statements present functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest).

The government-wide financial statements can be found on pages 14 - 15 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. 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 22 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, stabilization (special revenue) and conservation (special revenue) funds, each of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 16 - 21 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 the government-wide financial statements.

The fiduciary funds provide separate information for the Town's agency funds. Agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption "agency funds".

The basic fiduciary fund financial statement can be found on page 22 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 23 - 38 of this report.

Required Supplementary 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 39 - 43 of this report.

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 \$18,235,201 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2010	2009
Assets		
Current assets.....	\$ 6,666,193	\$ 6,105,053
Noncurrent assets (excluding capital assets).....	990,614	1,042,055
Capital assets (net).....	12,839,200	13,045,983
Total assets.....	20,496,007	20,193,091
Liabilities		
Current liabilities (excluding debt).....	398,520	418,433
Current debt.....	229,668	224,617
Noncurrent debt.....	1,632,618	1,902,286
Total liabilities.....	2,260,806	2,545,336
Net Assets		
Invested in capital assets (net of related debt).....	11,084,414	11,036,197
Restricted.....	732,272	682,341
Unrestricted.....	6,418,515	5,929,217
Total net assets.....	\$ 18,235,201	\$ 17,647,755

The largest portion of the Town's net assets (60.8%) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery, vehicles and equipment, 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 (4.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (35.2% or \$6,418,515) may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets.

Changes in Net Assets

The Town's total net assets increased by \$587,446 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	2010	2009
Revenues		
<i>Program Revenues:</i>		
Charges for services.....	\$ 438,648	\$ 472,431
Operating grants and contributions.....	1,472,892	1,451,758
Capital grants and contributions.....	113,313	358,258
<i>General Revenues:</i>		
Real estate, personal property taxes and tax liens.....	7,689,687	7,022,578
Motor vehicle and other excise taxes.....	349,185	389,298
Penalties and interest on taxes.....	27,657	27,162
Payments in lieu of taxes.....	45,891	40,163
Grants and contributions not restricted to specific programs.....	248,022	226,472
Unrestricted investment income.....	29,777	70,351
Total revenues.....	10,415,072	10,058,471
Expenses		
General government.....	801,941	773,464
Public safety.....	1,620,890	1,579,233
Education.....	6,139,418	5,826,369
Public works.....	914,122	873,875
Health and human services.....	57,335	58,387
Culture and recreation.....	172,409	170,720
Debt service - interest.....	121,511	127,731
Total expenses.....	9,827,626	9,409,779
Change in net assets.....	587,446	648,692
Net assets - beginning of year.....	17,647,755	16,999,063
Net assets - end of year.....	\$ 18,235,201	\$ 17,647,755

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 \$5,422,535 an increase of \$220,375 in comparison with the prior year. 74.8% of this total amount (\$4,057,841) represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$468,349)
- Loans (\$102,146)
- Perpetual permanent funds (\$165,625)
- Other specific purposes (\$411,274)
- Fund a portion of the fiscal year 2011 operating budget (\$217,300)

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 \$1,204,139, while total fund balance was \$1,889,788. 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 12.9% of total general fund expenditures and transfers out, while total fund balance represents 20.3% of that same amount.

The fund balance of the Town's general fund increased by \$108,616 during fiscal year 2010. Although the Town recognized a budgetary surplus of approximately \$928,000 (before encumbrances and continuing appropriations), reserves totaling approximately \$818,000 were used to fund the fiscal year 2010 operating budget.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$21,710 during the current fiscal year. The fund recognized \$11,453 of investment income and transfers in from the general fund of \$10,257 were received during fiscal year 2010.

The fund balance of the conservation fund (special revenue) increased by \$51,124 during the current fiscal year. The fund recognized \$50,000 of mall mitigation revenues and \$3,849 of investment income. The fund also incurred expenditures of \$2,275 during fiscal year 2010.

General Fund Budgetary Highlights

The original general fund budget of \$9,235,948 was increased by \$62,884 (0.7%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Snow and ice expenditures.....	\$ <u>62,884</u>	Undesignated fund balance

During the year, general fund revenues and other financing sources (uses) exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive overall budget to actual variance of approximately \$459,000.

*Capital Assets and Debt Administration*Capital assets

The Town's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$12,839,200 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, machinery, vehicles and equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled 1.6%.

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

- Infrastructure (\$184,293)
- Purchase of ambulance (\$183,833)

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

	<i>Governmental Activities</i>	
	<u>2010</u>	<u>2009</u>
Land.....	\$ 1,667,446	\$ 1,667,446
Land improvements.....	44,246	48,136
Buildings and improvements.....	8,639,216	8,935,138
Machinery, vehicles and equipment.....	995,924	1,025,085
Infrastructure.....	<u>1,492,368</u>	<u>1,370,178</u>
Total capital assets.....	\$ <u>12,839,200</u>	\$ <u>13,045,983</u>

Additional information on the Town's capital assets can be found in Note 5 on page 34 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$1,862,286, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2010	2009
General obligation bonds.....	\$ 1,760,000	\$ 2,015,000
MWPAT notes.....	102,286	111,903
Total bonds and notes.....	<u>\$ 1,862,286</u>	<u>\$ 2,126,903</u>

The Town's total bonded debt decreased by \$264,617 (12.4%) during the current fiscal year, with \$1,760,000 of general obligation refunding bonds issued to retire \$1,800,000 of town hall renovation bonds.

Additional information on the Town's long-term debt can be found in Note 8 on pages 35 - 37 of this report.

Economic Factors and Next Year's Budgets and Rates

In the development of the fiscal year 2011 general fund-operating budget the Town of Berlin faced a number of fiscal challenges summarized in the Finance Committees budget letter. The Finance Committee requested that all budgets be level funded based on the fiscal year 2010 budget.

The Finance Committee used the following numbers when preparing the fiscal year 2011 budgets. Funds available for fiscal year 2011 budget without a 2.5% override:

Levy Limit FY 2010	\$	7,293,844
+ 2.5%		182,346
New Growth		"Very low"
Subtotal	\$	7,476,190

This provides approximately \$192,000 in new funding for the fiscal year 2011 budget. This number does not include a new growth estimate, which is "anticipated to be very low" in the coming year. For the fiscal year 2010 budget an estimate of \$175,000 was used with the actual being \$184,600 (due to the completion of Sawyer Hill and new leases at Solomon Pond Mall). This growth above budget of \$9,600 is available for the fiscal year 2011 budget and was added to the 2.5% increase of \$182,346. For comparison, during fiscal year 2010 budgeting we had growth above budget of \$200,000 (\$150,000 budgeted in fiscal year 2009 vs. actual of \$350,000) to add toward the fiscal year 2010 budget. As a result this will provide an extra challenge in fiscal year 2011 vs. fiscal year 2010 when we had \$554,000 in new funding available for the budget.

State Aid

State Aid was a huge challenge in fiscal year 2010. Besides the State making decisions very late in the budget cycle, State Aid was significantly cut. The Town's share of State Aid was cut from \$961,307 to \$856,016 for a cut of 11.0%. A further breakdown shows unrestricted state aid (lottery) being reduced from \$250,923 to \$177,633 for a cut of 29.0%. The state share of the police incentive (Quinn Bill) was reduced from \$34,992 to \$6,144 (additional \$3,072 mid-year cut proposed by the Governor on November 5, 2009) for a cut of 82.0%. The State share of Veteran's Benefits was reduced from \$23,480 to \$1,181 for a cut of 95.0%.

The Town did benefit from a significant reduction in State charges. State charges were reduced from \$141,092 to \$86,775 for a positive cut of 38.0%. This helped our overall reduction from State Aid minus State charges to be only 6.2% (\$820,215 vs. \$769,241). The reduction in State charges was primarily from a reduction in school sending tuition (\$91,638 down to \$38,762).

Union-negotiated and/or contractual wages and expenses expired in June 2010 and a renewed contract has not yet been finalized. The rising costs associated with municipal requirements and services are still ever increasing; and the limitations on the property tax levy imposed by Proposition 2 ½ put a strain on the availability of funding for anything other than minimal budget increases.

	Increase/(Decrease) Over Fiscal Year 2010	Percentage Change
General Government..... \$	12,203	1.74%
Public Safety.....	80,116	6.54%
Elementary School.....	(66,858)	-2.44%
Public Works.....	6,210	1.02%
Human Services & Culture.....	447	0.33%
Debt & Interest *.....	(37,897)	-11.02%
Regional School Assessments.....	595,890	28.71%
Benefits & Insurances.....	66,686	8.01%

* - Paid off School Loan in fiscal year 2009 and refunded (refinanced) the Municipal Building Loan in fiscal year 2010.

Property taxes in Massachusetts are limited to a levy growth of 2 ½%, plus a factor for new construction, known as new growth, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. As a result of this limitation, property taxes in fiscal year 2010 increased \$382,251 over fiscal year 2009. This is an approximate 8.25% decrease over fiscal year 2009 increase of \$416,743. The fiscal year 2010 tax rate was \$13.37. The fiscal year 2011 tax rate is \$14.84. A partial revaluation of land values took place in fiscal year 2009 and the completion of the revaluation was in fiscal year 2010. The new revaluation will start in calendar year 2012.

Even with these major factors, the Town was able to vote on a balanced budget within the levy limit for fiscal year 2010. Over \$336,450 in free cash, \$124,250 in offset receipts and \$188,270 was used from other available funds. The municipal building debt was refunded (refinanced) in fiscal year 2010 saving the Town approximately \$207,593 over the next 9 years. The ad hoc Capital Improvement Committee has been working to provide a capital plan that will have minimal impact on the Town financially for all known capital expenses.

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 Town Accountant, 23 Linden Street, Berlin, Massachusetts, 01503

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 5,263,550
Restricted cash and cash equivalents.....	355,602
Receivables, net of allowance for uncollectible amounts:	
Real estate and personal property taxes.....	169,432
Tax liens.....	146,380
Motor vehicle excise taxes.....	38,224
Departmental and other.....	50,283
Mall mitigation.....	50,000
Intergovernmental.....	21,963
Loans.....	5,729
Tax foreclosures.....	565,030
Total current assets.....	6,666,193
Noncurrent assets:	
Receivables, net of allowance for uncollectible amounts:	
Real estate tax deferrals.....	44,197
Mall mitigation.....	850,000
Loans.....	96,417
Capital assets not being depreciated.....	1,667,446
Capital assets, net of accumulated depreciation.....	11,171,754
Total noncurrent assets.....	13,829,814
Total assets.....	20,496,007
LIABILITIES	
Current liabilities:	
Warrants payable.....	6,503
Accrued payroll.....	256,193
Tax refunds payable.....	34,466
Other liabilities.....	83,307
Accrued interest.....	18,051
Long-term bonds and notes payable.....	229,668
Total current liabilities.....	628,188
Noncurrent liabilities:	
Long-term bonds and notes payable.....	1,632,618
Total liabilities.....	2,260,806
NET ASSETS	
Invested in capital assets, net of related debt.....	11,084,414
Restricted for:	
Loans.....	102,146
Permanent funds:	
Expendable.....	53,227
Nonexpendable.....	165,625
Other specific purposes.....	411,274
Unrestricted.....	6,418,515
Total net assets.....	\$ 18,235,201

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	
Primary government:					
Governmental activities:					
General government.....	\$ 801,941	\$ 83,164	\$ 65,533	\$ -	\$ (653,244)
Public safety.....	1,620,890	219,435	8,449	-	(1,393,006)
Education.....	6,139,418	42,723	1,230,190	-	(4,866,505)
Public works.....	914,122	85,513	15,588	113,313	(699,708)
Health and human services.....	57,335	5,459	34,936	-	(16,940)
Culture and recreation.....	172,409	2,354	36,275	-	(133,780)
Debt service - interest.....	121,511	-	81,921	-	(39,590)
Total governmental activities.....	\$ 9,827,626	\$ 438,648	\$ 1,472,892	\$ 113,313	(7,802,773)
General revenues:					
Real estate, personal property taxes and tax liens.....					7,689,687
Motor vehicle excise taxes.....					349,185
Penalties and interest on taxes.....					27,657
Payments in lieu of taxes.....					45,891
Grants and contributions not restricted to specific programs.....					248,022
Unrestricted investment income.....					29,777
Total general revenues.....					8,390,219
Change in net assets.....					587,446
Net assets - beginning of year.....					17,647,755
Net assets - end of year.....				\$	18,235,201

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

ASSETS	<u>General</u>	<u>Stabilization</u>	<u>Conservation</u>
Cash and cash equivalents.....	\$ 2,188,400	\$ 1,504,071	\$ 558,124
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	169,432	-	-
Real estate tax deferrals.....	44,197	-	-
Tax liens.....	146,380	-	-
Motor vehicle excise taxes.....	38,224	-	-
Departmental and other.....	9,572	-	-
Mall mitigation.....	-	-	900,000
Intergovernmental.....	12,405	-	-
Loans.....	-	-	-
Tax foreclosures.....	565,030	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	-
TOTAL ASSETS.....	\$ 3,173,640	\$ 1,504,071	\$ 1,458,124
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ -	\$ -	\$ -
Accrued payroll.....	253,112	-	-
Tax refunds payable.....	34,466	-	-
Other liabilities.....	83,182	-	-
Deferred revenue.....	913,092	-	900,000
TOTAL LIABILITIES.....	1,283,852	-	900,000
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	468,349	-	-
Loans.....	-	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	217,300	-	-
Undesignated, reported in:			
General fund.....	1,204,139	-	-
Special revenue funds.....	-	1,504,071	558,124
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	1,889,788	1,504,071	558,124
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 3,173,640	\$ 1,504,071	\$ 1,458,124

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,012,955	\$ 5,263,550
-	169,432
-	44,197
-	146,380
-	38,224
40,711	50,283
-	900,000
9,558	21,963
102,146	102,146
-	565,030
<u>355,602</u>	<u>355,602</u>
\$ <u>1,520,972</u>	\$ <u>7,656,807</u>

\$ 6,503	\$ 6,503
3,081	256,193
-	34,466
125	83,307
<u>40,711</u>	<u>1,853,803</u>
<u>50,420</u>	<u>2,234,272</u>
-	468,349
102,146	102,146
165,625	165,625
411,274	411,274
-	217,300
-	1,204,139
733,066	2,795,261
5,214	5,214
<u>53,227</u>	<u>53,227</u>
<u>1,470,552</u>	<u>5,422,535</u>
\$ <u>1,520,972</u>	\$ <u>7,656,807</u>

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Stabilization	Conservation
REVENUES			
Real estate and personal property taxes.....	\$ 7,305,613	\$ -	\$ -
Motor vehicle excise taxes.....	328,141	-	-
Tax liens.....	30,262	-	-
Payments in lieu of taxes.....	45,891	-	-
Charges for services.....	-	-	-
Intergovernmental.....	1,248,881	-	-
Penalties and interest on taxes.....	27,657	-	-
Licenses and permits.....	71,832	-	-
Fines and forfeitures.....	33,965	-	-
Departmental and other.....	58,159	-	50,000
Contributions.....	-	-	-
Investment income.....	18,324	11,453	3,849
TOTAL REVENUES.....	9,168,725	11,453	53,849
EXPENDITURES			
Current:			
General government.....	639,467	-	2,725
Public safety.....	1,298,292	-	-
Education.....	4,803,283	-	-
Public works.....	694,802	-	-
Health and human services.....	21,654	-	-
Culture and recreation.....	113,458	-	-
Pension benefits.....	552,100	-	-
Employee benefits.....	659,436	-	-
Property and liability insurance.....	63,212	-	-
State and county charges.....	111,867	-	-
Debt service:			
Principal.....	224,617	-	-
Interest.....	110,443	-	-
TOTAL EXPENDITURES.....	9,292,631	-	2,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(123,906)	11,453	51,124
OTHER FINANCING SOURCES (USES)			
Transfers in.....	200,858	10,257	-
Issuance of refunding bonds.....	1,760,000	-	-
Premium from issuance of refunding bonds.....	81,921	-	-
Transfers out.....	(10,257)	-	-
Debt service - principal - current refunding.....	(1,800,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	232,522	10,257	-
NET CHANGE IN FUND BALANCES.....	108,616	21,710	51,124
FUND BALANCES AT BEGINNING OF YEAR.....	1,781,172	1,482,361	507,000
FUND BALANCES AT END OF YEAR.....	\$ 1,889,788	\$ 1,504,071	\$ 558,124

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 7,305,613
-	328,141
-	30,262
-	45,891
211,672	211,672
411,524	1,660,405
-	27,657
28,914	100,746
-	33,965
42,157	150,316
82,851	82,851
1,701	35,327
<u>778,819</u>	<u>10,012,846</u>
27,877	670,069
44,765	1,343,057
251,810	5,055,093
179,088	873,890
6,194	27,848
29,302	142,760
-	552,100
-	659,436
-	63,212
-	111,867
-	224,617
-	110,443
<u>539,036</u>	<u>9,834,392</u>
<u>239,783</u>	<u>178,454</u>
-	211,115
-	1,760,000
-	81,921
(200,858)	(211,115)
-	(1,800,000)
<u>(200,858)</u>	<u>41,921</u>
38,925	220,375
<u>1,431,627</u>	<u>5,202,160</u>
<u>\$ 1,470,552</u>	<u>\$ 5,422,535</u>

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

JUNE 30, 2010

Total governmental fund balances (page 17).....	\$ 5,422,535
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	12,839,200
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	1,853,803
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.....	(18,051)
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.....	<u>(1,862,286)</u>
Net assets of governmental activities (page 14).....	<u><u>\$ 18,235,201</u></u>

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 19).....	\$ 220,375
<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.....	400,427
Depreciation.....	(594,601)
<p>In the statement of activities, the loss on the disposal of capital assets is reported, whereas in the governmental funds the disposal is not reported as part of financial resources. As a result, the change in net assets differs from the change in fund balance by the loss on the disposal of capital assets.....</p>	
	(12,609)
<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>	
	320,305
<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>	
Issuance of refunding bonds.....	(1,760,000)
Debt service - principal - current refunding.....	1,800,000
Bond maturities.....	224,617
<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>	
	(11,068)
Changes in net assets of governmental activities (page 15).....	\$ <u>587,446</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Agency Funds
ASSETS	
Cash and cash equivalents.....	\$ 44,275
Receivables, net of allowance for uncollectible amounts:	
Departmental and other.....	11,863
Total assets.....	\$ 56,138
LIABILITIES	
Accrued payroll.....	\$ 3,362
Liabilities due depositors.....	40,913
Other liabilities.....	11,863
Total liabilities.....	\$ 56,138

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 Berlin, 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. It has been determined that there are no component units that require inclusion in the basic financial statements.

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 two joint ventures 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. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2010 Assessment</u>
Berlin-Boylston Regional School District	To provide educational services	215 Main Street Boylston, MA 01505	\$ 1,687,411
Assabet Valley Vocational Regional School District	To provide vocational educational services	215 Fitchburg Street Marlborough, MA 01752	381,699

The Berlin-Boylston School District is governed by a six-member school committee consisting of three elected representatives from the Town. The Town is indirectly liable for the Berlin-Boylston School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

The Assabet Valley Vocational Regional School District is governed by an eight-member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the Assabet Valley Vocational Regional School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

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.

Fund Financial Statements

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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 *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves. Use of this fund is subject to Town Meeting approval.

The *conservation fund* is a special revenue fund used to account for the accumulation of resources that can be used for open space resource purposes.

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 permanent 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.

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 type is reported:

The *agency fund* is used to account for assets held in a custodial capacity. Such assets primarily consist of performance bonds and police detail activity. 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.

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 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed approximately 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.

Departmental and Other

Departmental and other receivables consist primarily of ambulance and police detail charges 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.

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall, the Town entered into an agreement with Berlin Properties Limited Partnership to receive annual payments for the purpose of mitigating traffic, environmental, public safety, growth management and other impacts arising from the development of the Mall.

Loans

The Town administers various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

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 excise taxes
- Departmental and other

As of June 30, 2010, the allowance for uncollectible amounts for personal property and motor vehicle excise tax receivables are immaterial and therefore not reported.

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
- Loans

Intergovernmental and Mall Mitigation receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

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 Financial Statements

Capital assets, which consist of land, land improvements, buildings and improvements, machinery, vehicles and equipment and infrastructure (e.g., roads and similar items), are reported in the governmental 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.

Depreciable capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Land improvements.....	20
Buildings and improvements.....	7 - 40
Machinery, vehicles and equipment.....	5 - 20
Infrastructure.....	40 - 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 Funds 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.

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.

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:

"Loans" represents outstanding septic loans receivable.

"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.

"Loans" represents outstanding septic loans receivable.

"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:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2011 operating budget.

*O. Long-term Debt*Government-Wide Financial Statements

Long-term debt is reported as liabilities in the government-wide statement 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).

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 Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred. At June 30, 2010, the liability for accrued vacation and sick pay was not material to the basic financial statements and therefore is not reported.

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. 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.

*S. Total Column*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 adopts the expenditure budget by majority vote.

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

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 \$9,235,948 in appropriations and other amounts to be raised. During fiscal year 2010, supplemental appropriations totaling \$62,884 were authorized.

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

The budgetary comparison schedule presented in the accompanying required supplementary information presents comparisons of the legally adopted budget, as amended, with actual results and encumbrances and continuing appropriations carried forward to the ensuing fiscal year. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2010, expenditures exceeded appropriations for state and county charges.

C. Fund Deficits

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

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Fiscal year 2010 state 911 grant....	\$ 10,082	State grant

NOTE 3 - DEPOSITS AND INVESTMENTS

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.

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's policy is to rely on FDIC and DIF insurance coverage. As of June 30, 2010, the Town was not exposed to custodial credit risk.

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 Years) Less Than 1</u>
<u>Debt Securities:</u>		
Money market mutual funds.....	\$ 1,417,597	\$ 1,417,597
Repurchase agreements.....	2,780,303	2,780,303
External investment pools.....	81,410	81,410
Total investments.....	\$ <u>4,279,310</u>	\$ <u>4,279,310</u>

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's policy is to fully insure their investments. As of June 30, 2010, the entire amount of the Town's investments was insured, and therefore 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 Town's investments were unrated by a national credit rating organization.

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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 169,432	\$ -	\$ 169,432
Real estate tax deferrals.....	44,197	-	44,197
Tax liens.....	146,380	-	146,380
Motor vehicle and other excise taxes.....	38,224	-	38,224
Departmental and other.....	100,146	(38,000)	62,146
Mall mitigation.....	900,000	-	900,000
Intergovernmental.....	21,963	-	21,963
Loans.....	102,146	-	102,146
	<u>\$ 1,522,488</u>	<u>\$ (38,000)</u>	<u>\$ 1,484,488</u>

Mall Mitigation

In conjunction with the development of the Solomon Pond Mall (Mall), the Town entered into an agreement (Agreement) with Berlin Properties Limited Partnership (Developer) to receive annual payments for the purpose of mitigating traffic, as well as environmental, public safety, growth management and other impacts arising from the development of the Mall. During fiscal year 2010, \$50,000 of mitigation payments were received from the Developer per the terms of the Agreement. Approximately \$900,000 will be received in future fiscal years, and such payments relate solely to open space acquisition and preservation. Accordingly, a \$900,000 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.

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) 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	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 109,689	\$ -	\$ 109,689
Real estate tax deferrals.....	44,197	-	44,197
Tax liens.....	146,380	-	146,380
Motor vehicle and other excise taxes.....	38,224	-	38,224
Departmental and other.....	9,572	40,711 (b)	50,283
Mall mitigation.....	-	900,000 (a)	900,000
Tax foreclosures.....	565,030	-	565,030
Total.....	<u>\$ 913,092</u>	<u>\$ 940,711</u>	<u>\$ 1,853,803</u>

(a) Conservation fund (major fund)

(b) Nonmajor governmental funds

NOTE 5 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,667,446	\$ -	\$ -	\$ 1,667,446
<u>Capital assets being depreciated:</u>				
Land improvements.....	77,806	-	-	77,806
Buildings and improvements.....	12,156,002	7,150	-	12,163,152
Machinery, vehicles and equipment.....	2,648,378	208,984	(126,094)	2,731,268
Infrastructure.....	1,531,786	184,293	-	1,716,079
Total capital assets being depreciated.....	16,413,972	400,427	(126,094)	16,688,305
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(29,670)	(3,890)	-	(33,560)
Buildings and improvements.....	(3,220,864)	(303,072)	-	(3,523,936)
Machinery, vehicles and equipment.....	(1,623,293)	(225,536)	113,485	(1,735,344)
Infrastructure.....	(161,608)	(62,103)	-	(223,711)
Total accumulated depreciation.....	(5,035,435)	(594,601)	113,485	(5,516,551)
Total capital assets being depreciated, net.....	11,378,537	(194,174)	(12,609)	11,171,754
Total governmental activities capital assets, net.....	\$ 13,045,983	\$ (194,174)	\$ (12,609)	\$ 12,839,200

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

Governmental Activities:

General government.....	\$ 42,045
Public safety.....	199,297
Education.....	193,091
Public works.....	153,600
Culture and recreation.....	6,568
Total depreciation expense - governmental activities.....	\$ 594,601

NOTE 6 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:		
	General Fund	Stabilization Fund	Total
General Fund.....	\$ -	\$ 10,257	\$ 10,257 (1)
Nonmajor Governmental Funds.....	200,858	-	200,858 (2)
	<u>\$ 200,858</u>	<u>\$ 10,257</u>	<u>\$ 211,115</u>

(1) Represents budgeted transfers to close out prior year articles and fund the stabilization fund.

(2) Represents budgeted transfers from ambulance receipts reserved (\$150,000), Anna Hunt trust (\$50), library dog receipts reserved (\$1,672), septic loan receipts reserved (\$9,617), cemetery receipts reserved (\$8,500), and sale of lots receipts reserved (\$1,000) special revenue funds to fund the fiscal year 2010 operating budget. Represents non-budgeted transfers from the transfer station receipts reserved (\$18,082), fire inspector receipts reserved (\$246), electrical inspector receipts reserved (\$509), and plumbing and gas inspector receipts reserved (\$358) special revenue funds. Also represents non-budgeted transfer from the ice storm 2008 (\$10,824) special revenue fund to close out the fund.

NOTE 7 - 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 for short-term borrowings are accounted for in the general fund.

The Town did not issue or retire any short-term debt during fiscal year 2010, nor was there any short-term debt outstanding at June 30, 2010.

NOTE 8 - LONG-TERM DEBT

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".

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
Town Hall Renovations.....	5.40%	2,015,000	-	(2,015,000)	-
MWPAT - Title V Loan.....	5.23%	82,357	-	(7,502)	74,855
MWPAT - Title V Loan.....	5.33%	29,546	-	(2,115)	27,431
General obligation refunding.....	2.25-5.00%	-	1,760,000	-	1,760,000
Total.....		\$ 2,126,903	\$ 1,760,000	\$ (2,024,617)	\$ 1,862,286

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

Fiscal Year	Principal	Interest	Total
2011.....	\$ 229,668	\$ 71,795	\$ 301,463
2012.....	229,668	56,856	286,524
2013.....	229,606	51,389	280,995
2014.....	219,658	45,919	265,577
2015.....	214,658	40,148	254,806
2016.....	189,523	33,485	223,008
2017.....	184,523	25,769	210,292
2018.....	174,523	18,237	192,760
2019.....	174,523	9,455	183,978
2020.....	9,523	683	10,206
2021.....	2,105	373	2,478
2022.....	2,154	266	2,420
2023.....	2,154	106	2,260
Total.....	\$ 1,862,286	\$ 354,481	\$ 2,216,767

Current Refunding – April 15, 2010

The Town issued \$1,760,000 in general obligation refunding bonds with an average interest rate of approximately 3.6% to refund (current) \$1,800,000 of previously issued town hall renovation bonds with an average interest rate of approximately 5.4%. The net proceeds of \$1,800,000 (after receipt of premium totaling \$81,921 and payment of \$41,921 in underwriting fees, insurance and other issuance costs) were used to retire town hall renovation bonds and related accrued interest. As a result of this refunding, the Town will reduce its total debt service payments over the next nine years by approximately \$208,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$185,000.

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). 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 \$5,700. Future subsidies total approximately \$29,800. The amount of MWPAT bonds outstanding at June 30, 2010, totaled \$102,286.

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 no authorized and unissued debt.

NOTE 9 - 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 participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Worcester Regional Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts' Teachers Retirement System.

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 System 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 the Worcester County Court House, Worcester, Massachusetts, 01608.

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 active current payroll. The Town's contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were \$198,897, \$181,998, and \$156,465, respectively, which equaled its required contribution for each fiscal year.

NOTE 11 - 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 \$357,178 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and education expenditures.

NOTE 12 - CONTINGENCIES

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

The Town participates in a number of federal award programs. The programs are 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 13 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

The Town implemented the following GASB pronouncements during fiscal year 2010:

- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. The implementation of this Statement had no impact on the financial statements.
- 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 Instruments*. 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 14 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #54, *Fund Balance Reporting and Governmental Fund 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. The implementation of this Statement 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 by their required year of implementation.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 7,343,842	\$ -	\$ 7,343,842
Motor vehicle excise taxes.....	-	387,500	-	387,500
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	40,150	-	40,150
Intergovernmental	-	791,361	-	791,361
Penalties and interest on taxes.....	-	23,600	-	23,600
Licenses and permits.....	-	37,000	-	37,000
Fines and forfeitures.....	-	42,265	-	42,265
Departmental.....	-	22,250	-	22,250
Investment income.....	-	41,000	-	41,000
TOTAL REVENUES.....	-	8,728,968	-	8,728,968
EXPENDITURES				
Current:				
General government.....	177,744	724,809	(10,787)	891,766
Public safety.....	31,855	1,405,587	-	1,437,442
Education.....	126,446	4,841,235	-	4,967,681
Public works.....	45,083	644,851	63,671	753,605
Health and human services.....	1,000	38,784	-	39,784
Culture and recreation.....	23,531	111,893	-	135,424
Pension benefits.....	-	194,922	-	194,922
Employee benefits.....	13,655	762,295	10,000	785,950
Property and liability insurance.....	-	70,000	-	70,000
State and county charges.....	-	87,308	-	87,308
Debt service:				
Principal.....	-	226,565	-	226,565
Interest.....	-	117,442	-	117,442
TOTAL EXPENDITURES.....	419,314	9,225,691	62,884	9,707,889
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(419,314)	(496,723)	(62,884)	(978,921)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	170,839	-	170,839
Issuance of refunding bonds.....	-	-	-	-
Premium from issuance of refunding bonds.....	-	-	-	-
Transfers out.....	-	(10,257)	-	(10,257)
Debt service - principal - current refunding.....	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	160,582	-	160,582
NET CHANGE IN FUND BALANCE.....	(419,314)	(336,141)	(62,884)	(818,339)
FUND BALANCE AT BEGINNING OF YEAR.....	1,755,330	1,755,330	1,755,330	1,755,330
FUND BALANCE AT END OF YEAR.....	\$ 1,336,016	\$ 1,419,189	\$ 1,692,446	\$ 936,991

See notes to basic financial statements.

Actual	Encumbrances and Continuing Appropriations	Total Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 7,306,180	\$ -	\$ 7,306,180	\$ (37,662)
328,141	-	328,141	(59,359)
30,262	-	30,262	30,262
45,891	-	45,891	5,741
891,703	-	891,703	100,342
27,657	-	27,657	4,057
71,832	-	71,832	34,832
33,965	-	33,965	(8,300)
58,159	-	58,159	35,909
18,324	-	18,324	(22,676)
8,812,114	-	8,812,114	83,146
639,467	185,552	825,019	66,747
1,298,292	67,136	1,365,428	72,014
4,803,283	150,630	4,953,913	13,768
694,802	23,770	718,572	35,033
21,654	17,509	39,163	621
113,458	20,752	134,210	1,214
194,922	-	194,922	-
659,436	3,000	662,436	123,514
63,212	-	63,212	6,788
111,867	-	111,867	(24,559)
224,617	-	224,617	1,948
110,443	-	110,443	6,999
8,935,453	468,349	9,403,802	304,087
(123,339)	(468,349)	(591,688)	387,233
200,858	-	200,858	30,019
1,760,000	-	1,760,000	1,760,000
81,921	-	81,921	81,921
(10,257)	-	(10,257)	-
(1,800,000)	-	(1,800,000)	(1,800,000)
232,522	-	232,522	71,940
109,183	(468,349)	(359,166)	459,173
1,755,330	1,755,330	1,755,330	-
\$ 1,864,513	\$ 1,286,981	\$ 1,396,164	\$ 459,173

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)
01/01/10	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.6%
01/01/07	389,758,785	692,768,325	303,009,540	56.3%	211,581,755	143.2%
01/01/04	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%
01/01/01	316,389,108	426,280,953	109,891,845	74.2%	145,000,347	75.8%
01/01/99	248,967,040	374,455,997	125,488,957	66.5%	119,857,640	104.7%
01/01/98	240,982,371	394,330,873	153,348,502	61.1%	134,803,954	113.8%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2004	\$ 17,562,285	100
2005	21,012,959	100
2006	21,982,772	100
2007	22,997,682	100
2008	26,400,000	100
2009	28,800,000	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	\$ 122,751	100	0.7%
2006	146,675	100	0.7%
2007	159,714	100	0.7%
2008	156,465	100	0.7%
2009	181,998	100	0.7%
2010	198,897	100	0.7%

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>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 8,812,114	\$ 9,403,802
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	26,899	-
Net change in recording tax refunds payable.....	(27,466)	-
To record activity for MTRS on-behalf payments.....	357,178	357,178
To record encumbrances and continuing appropriations.....	-	(468,349)
	<u> </u>	<u> </u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>9,168,725</u>	\$ <u>9,292,631</u>

NOTE B - PENSION PLAN

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

Valuation date:	January 1, 2010
Actuarial cost method:	Individual entry age normal
Amortization method:	4.5% increasing for the 2002 and 2003 ERI and 4.0% increasing for the remaining unfunded liability
Remaining amortization period:	18 years remaining for the 2002 and 2003 ERI liability and 30 years for remaining unfunded liability
Asset valuation method:	4 year smoothing of realized and unrealized investment earnings greater than or less than the expected return
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.00%
Projected salary increases:	3.00%
Cost of living adjustment:	3.00% of the lesser of the pension amount and \$14,000 per year