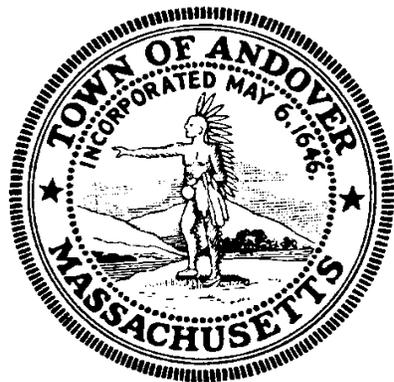


**TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT**



For the Fiscal Year Ended June 30, 2013



Board of Selectmen



Paul Salafia
Chairman

Alex Vispoli
Vice Chair

Brian Major

Mary Lyman

Daniel Kowalski



File Photo

TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2013



Prepared by:

Rodney Smith, Town Accountant

TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2013

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Introductory Section



Pomps Pond

Introductory Section

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Town of Andover

36 Bartlet Street
Andover, Massachusetts 01810
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Letter of Transmittal

January 24, 2014

To Members of the Board of Selectmen and Citizens of the Town of Andover:

At the close of each fiscal year state law requires the Town of Andover to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Andover, Massachusetts, for the fiscal year ending June 30, 2013 for your review.

This report consists of management's representations concerning the finances of the Town of Andover. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Andover has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Andover's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Andover's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Town of Andover's financial statements have been audited by Powers & Sullivan, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Andover for the fiscal year ended June 30, 2013 are free of material misstatement.

The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Andover's financial statements for the fiscal year ended June 30, 2013 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Andover was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of

the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Andover's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The Town of Andover's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

Andover is located in Essex County in the northeastern part of Massachusetts, approximately 23 miles north of Boston. Located on the banks of the Merrimack River, Andover is bordered on the north by the cities of Lawrence and Methuen, on the east by the town of North Andover, on the south by the towns of North Reading and Wilmington, and on the west by the towns of Tewksbury and Dracut. Andover has approximately 32 square miles of land area, and 235 miles of roadways.

Andover is bisected by two major highway systems, Interstate 93 and 495, and a number of secondary roadways including Routes 28, 133, 114 and 125. Public transportation is available via two commuter rail service stations from Andover to the metropolitan Boston area provided by the Massachusetts Bay Transportation Authority, and a regional bus service provided by the Merrimack Valley Regional Transit Authority.

Andover was originally settled in 1636 under the Native-American name of Cochichewick, a local waterway. The community was incorporated in 1646 as the Town of Andover, named after a town in England where many of its settlers had come from.

From the earliest days, manufacturing has played a major part in the Town of Andover's development. The region's first powder mill was established in 1775; the manufacture of paper began in 1789; and in the early nineteenth century, several woolen mills prospered. While all of these early forms of manufacturing have since moved away, Andover continues to attract major modern industries.

Andover is known for its forward thinking government, which is committed to quality, responsiveness, and service. The Town's governing Charter was enacted by the Legislature in 1956, amended in 1974 and again in 2004. The Charter authorizes an Open Town Meeting, Board of Selectmen, Town Manager form of government. The Town is overseen by an elected five-member Board of Selectmen, and is administered by an appointed professional Town Manager, who also oversees approximately 20 departments and divisions. Andover's public schools are overseen by an elected five-member School Committee, and administered by an appointed professional Superintendent. There are also various appointed boards and committees which have specific responsibilities concerning various aspects of Town governance. Town Meeting, which is generally unique to New England, serves as Andover's legislative body. It offers all registered voters of the community the opportunity to participate in the major decisions of the Town. Town Meeting is facilitated by an elected Town Moderator, who is responsible for appointing a nine member Finance Committee, which in turn is responsible for advising Town Meeting on matters brought before it.

The Town provides a full array of high quality services to the general public, including: full-time police and fire protection; schools for grades kindergarten through 12, (six elementary, three middle, one senior high, and one regional vocational technical high school); solid waste disposal and recycling; street maintenance and snow removal; public health and natural resource protection; community development and planning; elder, youth and veteran services; a full service library; and various parks, playgrounds, conservation lands, and recreational programs. The Town also operates its own water supply, treatment and distribution system; and provides sanitary waste disposal via connections to a regional treatment facility. During the summer months the Town operates Pomp's Pond, a family and youth oriented recreation area located off Abbot Street, which includes recreational

and instructional swimming, shaded picnic tables, boat rentals, volleyball, and children's playground. The Town of Andover is committed to a high degree of community responsiveness, providing high quality services to its citizens, and conducting all its affairs in a transparent and professional manner.

Factors Affecting Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Andover operates.

Local economy: Andover is home to businesses of all sizes. The Town is known for its vibrant and diversified local economy. With its major intersecting highways, busy rail line, and proximity to international airports in Boston, MA and Manchester, NH, Andover is a true business "cross roads." The Town offers several industrial parks, a thriving downtown central business district, and a number of mixed use commercial areas. Andover is a highly sought after location for large companies representing major industries, including those involved in defense contracting, computer hardware and software, life science, pharmaceutical, biotech, and medical products. Andover's largest commercial/industrial employers are Raytheon, Philips Medical, Pfizer, Phillips Academy, Internal Revenue Service, Putnam Investments, Schneider Electric, Procter and Gamble, Verizon, Vicor, Eisai Pharmaceutical, Weather Services International, Hewlett Packard and Smith & Nephew. There are approximately 500 acres of developable commercial and industrial land remaining in Town, as well as significant office space rental opportunities, suitable for accommodating almost any business need. The Town anticipates continued expansion of its sizable \$6.8 billion tax base given its favorable location, diverse high-end employment base, and availability of developable land. Andover has seen solid annual growth rates, reflecting continued expansion of commercial and industrial properties and sustained value appreciation.

In the spring of 2012, the Town of Andover successfully approved via Town Meeting their 1st Tax Increment Financing (TIF) for Schneider Electric. Schneider Electric (SE) will be relocated and consolidate several area operations into a redeveloped and expanded facility at 800 Federal Street (160,860 sf) with a proposed addition of 77,000 sf. In total this project is scheduled to bring on-line approximately 227,860 sf of industrial space that has been sparsely occupied since developed back in 1999. It is anticipated that the company would bring an estimated 600 jobs to Andover, with opportunities for future organic growth in the adjacent facility located at 600 Federal Street. With a minimum private investment of \$20 million dollars, the current assessment of \$8 million dollars would substantially rise to an estimated \$20 million, with the projected new annual tax revenue being approximately \$470,000. The new headquarters for Schneider Electric is anticipated to be open this winter.

Although in a holding pattern waiting funding from Federal Highway and the Commonwealth, the Town of Andover, Tewksbury and Wilmington are committed to seeing the unified development plan become a reality. The anticipated creation of a new interchange on I-93 near the Pfizer and Procter & Gamble (formerly Gillette) facilities will make more than 395 acres of land accessible for industrial expansion with the potential of bringing on line approximately 2 million square feet of new hi-tech office/industrial space. In total, the development area has a potential to yield approximately 4 million square feet of new office/industrial/commercial space (2 million square feet in Andover) with direct access off Route 93, with estimates that this in-fill development could support as many as 11,500 new jobs if fully developed.

Long-term financial planning: The Town of Andover has a proud history of maintaining a solid financial position in all economies, as indicated by its "AAA" bond rating assigned by Standard & Poor's. The Town's financial actions are generally guided by a number of formal financial policies including long range planning tools such as a multi-year forecast, a five year Capital Improvement Program, prioritizing spending plans and identifying discretionary spending, pay-as-you go financing strategies, long-term planning for all liabilities including pension, OPEB and insurance reserves, and municipal best practices, which are reviewed annually at the beginning of each budget development cycle.

Given the number of years of reduced state aid, the Town has been able to minimize the impact to municipal and school services through a combination of prudent budgeting, user fee adjustments, strong tax collections, and continued property growth, along with taking steps towards slowing the rising rate of employee healthcare costs. The Town is currently managing approximately \$97.8 million worth of long and short-term debt. This indebtedness consists of approximately \$64.8 million of general obligation bonds, and \$33 million enterprise funds debt which is self-supporting through enterprise fund revenues.

The Town has authorized but not issued debt for school construction, landfill closure, land acquisition, water and sewer infrastructure and other various projects totaling \$61.7 million as of June 30, 2013. This includes \$49.5 million authorized for the design and construction of the Bancroft Elementary School of which, 44% will be reimbursable from the Massachusetts School Building Authority. This school is currently under construction and scheduled to open in September 2014.

In fiscal year 2013, the Town added \$1,000,000 to a "Landfill" stabilization account to mitigate future debt service payments relating to the closure of the Ledge Road Landfill. In addition another \$600,000 was added to a stabilization fund to deposit bond premium income to be used to offset future debt service costs.

The Town of Andover has enhanced its revenue flexibility by establishing enterprise funds and many other user supported programs. This has allowed the Town to shift the operating costs to the users of certain services so that little or no tax support goes towards providing these services. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

An Audit Committee assists the Town Manager with the selection of the independent auditor, oversight of the audit process, and resolution of audit findings.

Cash management policies and practices: The Town of Andover issues property tax bills quarterly and derives approximately 75% of annual General Fund revenue from this source. The quarterly billings result in a cyclical build-up and then spend-down of operational cash reserves. Every effort is made to put our reserves to work. For the past 12 months, this has been a challenging proposition due to the struggling economy and the accompanying weak financial markets which has resulted in a low rate of return for most traditional investment vehicles. The Federal Open Market Committee has dropped the Federal Funds Rate from 1.0% down to a sliding scale of 0.0% to .025%. Short term rates, and most permissible investments, are highly influenced by this rate. The Fed expects to keep this rate structure for an extended period of time because they are of the opinion that the economic recovery will be a very slow and gradual process and raising rates could stagnate the recovery cycle. The Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield possible within those constraints.

On a daily basis, the Treasurer's Office transfers funds into various depository accounts at local/regional banking institutions. Short term funds are transferred to various banks and financial institutions to obtain the highest competitive return. The Treasurer is responsible for having on hand adequate cash to pay invoices and fund payroll on a weekly basis. Regulations depicting the type of investments that general fund receipts and free cash can be invested in limit the Treasurer's ability to invest longer term. In today's challenging market environment, short-term earnings will be depressed for the foreseeable future.

The Treasurer continually evaluates cash flow data to determine the amount of money that can be invested for a longer term and thus, yield a higher return on investments. The Treasurer's Office operates on an aggregate cash basis and invests in the same manner. Currently, the maturities of the various investments range from 30 days to one year with an average maturity of approximately three months

While maintaining a highly diversified investment portfolio, the Treasurer also aims to maintain competitive relationships with numerous banks and other financial institutions. Through these relationships, the Treasurer continually investigates new investment vehicles and products to assist in generating the highest possible yield,

while at the same time maintaining safety and liquidity. Since short-term rates fluctuate frequently amongst these institutions, the Treasurer monitors the investments, and the market, to keep abreast of what is happening with the investment environment.

The Town's trust funds are managed by various financial institutions Trust Division's. Each trust fund has a distinct purpose which therefore will affect the mix of holdings in cash, fixed income securities and equities that will vary by fund depending on that fund's particular needs. The amount of annual income required and the timing of disbursements generally governs the types and the quantities of the investments in the fund's portfolio.

Risk management: The Town of Andover manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Health care and workers compensation are a combination of self-insured and premium based plans. The Town is exposed to various risks of loss related to general liability, property and casualty, workers' compensation and unemployment compensation claims. Buildings and property are fully insured against fire, theft and natural disaster to the extent that losses exceed the Town's deductible per incident. These deductibles vary by type of incident, none of which exceed \$50,000.

Pension and other postemployment benefits: The Town of Andover contributes to the Andover Contributory Retirement System (the System), a cost sharing defined benefit pension plan administered by the Andover Contributory Retirement Board. Every two years, an independent actuary engaged by the Andover Contributory Retirement Board calculates the amount of the annual contribution that the Town of Andover must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a requirement by law, the Town of Andover fully funds each year's annual required contribution to the pension plan as determined by the actuary. The System has succeeded in funding 49.7% of the present value of the projected benefits earned by employees based on the last actuarial valuation of January 1, 2012. The remaining unfunded amount is being systematically funded over 28 years as part of the annual required contribution calculated by the actuary. The System will be conducting its next actuarial valuation as of January 1, 2014.

The Town of Andover also provides postemployment health care and life insurance benefits for certain retirees and their dependents. There were 540 retirees employees receiving these benefits. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. The Town completed its second actuarial valuation, dated June 30, 2011, that was prepared to determine the unfunded liability as of June 30, 2011. The Town established a Postemployment Benefit Trust fund in fiscal 2010 and made an initial deposit of \$258,120 into the fund. Additional information on the Town of Andover's pension and postemployment benefits can be found in the notes to the financial statements. As of June 30, 2013, the balance of the OPEB trust fund totaled \$1.1 million.

Annual budget process and controls: The Town Manager is responsible for preparing and presenting the budget to the Finance Committee and the Board of Selectmen. The Selectmen review all requests and Town-wide issues and present a budget to Town Meeting for approval. A nine member Finance Committee reviews the budget and makes its independent recommendations to Town Meeting.

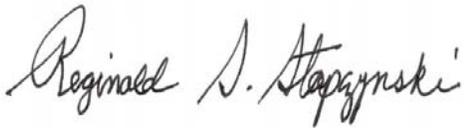
The level of budgetary control is established by Town Meeting and this approval defines the level at which expenditures may not exceed appropriations. This level is typically at the functional level. The Town Accountant is responsible for ensuring all payroll and invoices are within the budgetary control level before authorizing payment. Additional appropriations may be approved at subsequent Town Meetings. These controls ensure compliance with the budget approved by Town Meeting.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) has again awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This was the ninth consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance and Accounting Department staffs. We would like to express our appreciation to all the members of the Departments who assisted and contributed to the preparation of this report. Credit must also be given to the Town Selectmen and Town Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Andover's finances. And special thanks to Theo Moccia, Assistant Town Accountant, who was instrumental in coordinating and providing support for the preparation of this report.

Respectfully submitted,



Reginald S. Stapczynski

Town Manager



Rodney P. Smith

Town Accountant



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

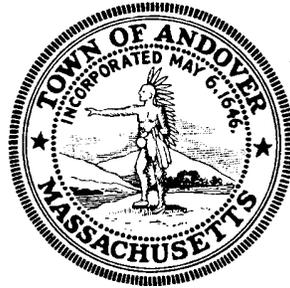
**Town of Andover
Massachusetts**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

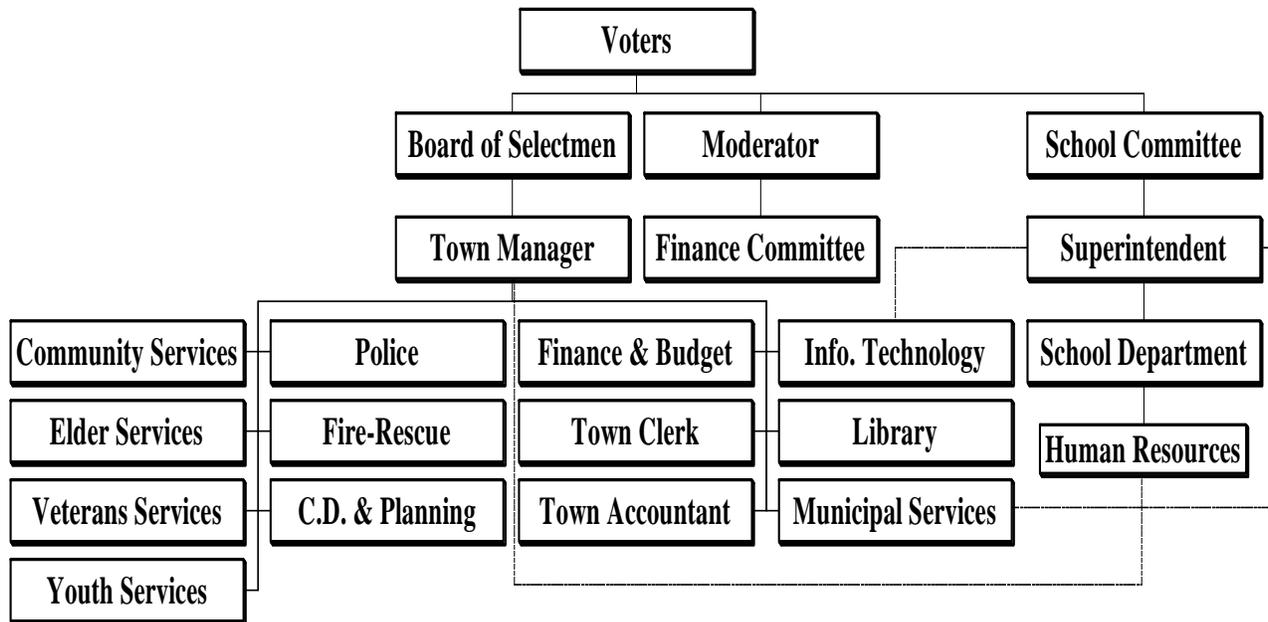
June 30, 2012

Executive Director/CEO

Town of Andover



Organizational Chart



The Mission of the Town of Andover is to ensure the safety, education, and well-being of the community; to be a leader in the delivery of efficient and effective quality services that respond to community needs; to promote the continuous improvement of staff skills and performance; to encourage an environment of trust; to respect cultural and economic diversity; and to preserve the historic character of the community.

Principal Town Officials

Elected Officials

Board of Selectmen

Alexander J. Vispoli, Chairman
Daniel H. Kowalski, Vice Chairman
Brian P. Major, Secretary
Paul J. Salafia
Mary K. Lyman

Town Moderator

Sheila M. Doherty

School Committee

Dennis F. Forgue, Chair
Ann W. Gilbert, Vice Chair
David A. Birnbach
Paula M. Colby-Clements
Barbara A. L'Italien

Appointed Officials

Town Manager

Reginald S. Stapczynski

Superintendent of Schools

Dr. Marinel D. McGrath

Town Accountant

Rodney P. Smith

Finance Director

Donna Walsh

Treasurer

David J. Reilly

Town Assessor

David Billard

Town Clerk

Lawrence J. Murphy

Fire Chief

Michael B. Mansfield

Police Chief

Patrick Keefe

Human Resources Director

Candace A. Hall-Nourse

Library Director

Beth H. Mazin

Municipal Services:

Plant & Facilities Director

Edwin Ataide, Acting

Public Works Director

Christopher M. Cronin, Acting

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Financial Section



Blanchard Fields

Financial Section

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Andover, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts as of and for the year ended June 30, 2013 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts, as of June 30, 2013 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2012), and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Andover, Massachusetts' basic financial statements. The introductory section, combining and individual fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, as listed in the table of contents, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the Town of Andover, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Andover, Massachusetts' internal control over financial reporting and compliance.



January 24, 2014

Management's Discussion and Analysis

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Management's Discussion and Analysis

As management of the Town of Andover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- At the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$15.1 million which represents 11% of total general fund budgetary basis expenditures.
- The assets of the Town of Andover exceeded liabilities at the close of the most recent fiscal year by \$131.2 million (net position).
- The Town's noncurrent governmental liabilities (excluding debt) increased by \$7.1 million, which was primarily due to the recognition of the other postemployment benefit (OPEB) liability.
- The Town's total governmental gross debt (short-term and long-term combined) increased by \$12.6 million during the current fiscal year. This was due to the net effect of \$2.0 million and \$9.4 million in principal payments on short-term and long-term debt, respectively, the issuance of \$24.0 million of long-term debt for school construction, building renovations, and an advanced refunding of \$3.4 million.
- The Town's total business-type gross long-term debt decreased by \$735,000 during the current fiscal year. This was due to the net effect of \$3.9 million in principal payments and the issuance of \$3.2 million of debt for infrastructure improvements and an advanced refunding of \$1.2 million.
- The advanced refunding noted above reduced future debt service payments by \$462,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Andover's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

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

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

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

The government-wide financial statements include not only the Town of Andover itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Andover is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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

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

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

The Town of Andover adopts an annual appropriated budget for its general fund. A budget to actual schedule has been provided for the general fund to demonstrate compliance with this budget.

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 activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation, and general liability insurance.

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 statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The Town of Andover’s assets exceeded liabilities by \$131.2 million at the close of fiscal year 2013, which was an increase of \$5.3 million from the prior year.

Net position of \$150.2 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$9.3 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* has a year-end deficit of \$28.2 million. The primary reason for this deficit balance is the recognition of OPEB liabilities.

At the end of the current fiscal year, the Town is able to report positive balances in two of three categories of net position, for the Town as a whole and for its governmental activities. Its business-type activities report positive balances in both categories.

The governmental activity and business-type activity components are presented on the following pages.

Governmental Activities

The Town’s assets exceeded liabilities for governmental activities by \$67 million at the close of fiscal year 2013.

	FY13	FY12
Assets:		
Current assets.....	\$ 58,187,485	\$ 43,556,130
Noncurrent assets (excluding capital).....	4,339,879	5,722,507
Capital assets.....	153,411,443	136,858,283
Total assets.....	215,938,807	186,136,920
Liabilities:		
Current liabilities (excluding debt).....	11,858,651	9,448,652
Noncurrent liabilities (excluding debt).....	69,924,000	62,797,000
Current debt.....	7,034,527	7,875,835
Noncurrent debt.....	60,090,493	44,861,363
Total liabilities.....	148,907,671	124,982,850
Net Position:		
Net investment in capital assets.....	104,403,021	97,503,961
Restricted.....	9,250,406	6,194,838
Unrestricted.....	(46,622,291)	(42,544,729)
Total net position.....	\$ 67,031,136	\$ 61,154,070

	<u>FY13</u>	<u>FY12</u>
Program revenues:		
Charges for services.....	\$ 12,928,317	\$ 11,850,014
Operating grants and contributions.....	27,330,776	27,219,005
Capital grants and contributions.....	9,702,374	2,310,588
General Revenues:		
Real estate and personal property taxes.....	110,652,457	107,658,022
Motor vehicle and other excise taxes.....	6,430,755	5,884,034
Nonrestricted grants.....	2,099,507	2,005,649
Unrestricted investment income.....	74,364	273,240
Other revenues.....	1,405,804	1,414,766
Total revenues.....	<u>170,624,354</u>	<u>158,615,318</u>
Expenses:		
General government.....	9,997,575	9,579,841
Public safety.....	21,349,177	21,019,992
Education.....	111,484,537	110,530,908
Municipal services.....	14,475,054	12,973,596
Community services.....	3,497,572	3,547,165
Library.....	3,291,536	3,330,995
Interest.....	2,180,097	1,813,401
Total expenses.....	<u>166,275,548</u>	<u>162,795,898</u>
Excess (deficiency) before transfers.....	4,348,806	(4,180,580)
Transfers.....	<u>1,528,260</u>	<u>1,639,574</u>
Change in net position.....	\$ <u>5,877,066</u>	\$ <u>(2,541,006)</u>

The governmental expenses totaled \$166.3 million of which \$50.0 million (30%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$122.2 million, primarily coming from property taxes, motor vehicle excise, and non-restricted state aid.

The governmental net position increased by \$5.9 million during the current fiscal year. This was primarily due to \$7.7 million in capital grant revenue from the Massachusetts School Building Authority (the MSBA) for eligible school construction costs, and \$1.6 million in capital grant revenue from the State's Chapter 90, and the timing of grants revenue and expenditures; offset by the recognition of \$6.4 million of additional OPEB liabilities.

Governmental expenses increased by \$3.5 million. This is primarily due to a \$954,000 increase in educational expenditures and a \$1.5 million increase in municipal services, of which \$876,000 relates to snow and ice expenditures.

In fiscal 2013, the Town consolidated its public facilities and public works budgetary line-items and formed a new budgetary line-item called municipal services.

Business-Type Activities

For the Town's business-type activities, assets exceeded liabilities by \$64.2 million at the close of fiscal year 2013.

	<u>FY13</u>	<u>FY12</u>
Assets:		
Current assets.....	\$ 15,598,977	\$ 13,439,791
Noncurrent assets (excluding capital).....	9,329,183	10,448,221
Capital assets.....	74,652,524	76,752,434
Total assets.....	<u>99,580,684</u>	<u>100,640,446</u>
Liabilities:		
Current liabilities (excluding debt).....	498,580	710,875
Noncurrent liabilities (excluding debt).....	1,435,000	1,241,000
Current debt.....	2,743,110	2,689,674
Noncurrent debt.....	30,692,495	31,260,019
Total liabilities.....	<u>35,369,185</u>	<u>35,901,568</u>
Net Position:		
Net investment in capital assets.....	45,822,689	46,353,252
Unrestricted.....	<u>18,388,810</u>	<u>18,385,626</u>
Total net position.....	<u>\$ 64,211,499</u>	<u>\$ 64,738,878</u>
Program revenues:		
Charges for services.....	\$ 11,485,877	\$ 11,210,792
Capital grants and contributions.....	42,339	-
General Revenues:		
Unrestricted investment income.....	<u>10,245</u>	<u>8,825</u>
Total revenues.....	<u>11,538,461</u>	<u>11,219,617</u>
Expenses:		
Water.....	6,363,699	6,459,218
Sewer.....	<u>4,173,881</u>	<u>4,157,552</u>
Total expenses.....	<u>10,537,580</u>	<u>10,616,770</u>
Excess (deficiency) before transfers.....	1,000,881	602,847
Transfers.....	<u>(1,528,260)</u>	<u>(1,639,574)</u>
Change in net position.....	<u>\$ (527,379)</u>	<u>\$ (1,036,727)</u>

Business-type net position of \$45.8 million (71%) represents the investment in capital assets while \$18.4 million (29%) is unrestricted. The Town's business-type net position decreased by \$527,000 in the current fiscal year.

The water department net position decreased by \$210,000. This decrease was primarily due to the recognition of \$167,000 in additional other postemployment benefit liabilities.

The sewer department net position decreased by \$318,000. The decrease in net position is mainly due to the budgeted use of reserves to balance appropriations.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, unassigned 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, governmental funds reported combined ending fund balances of \$35.6 million which is comprised of \$15.1 million in the general fund, \$969,000 in the school projects fund, and \$19.6 million of nonmajor governmental funds. Cumulatively there was an increase of \$10.2 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12.7 million, while total fund balance was \$15.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9% of total general fund budgetary expenditures, while total fund balance represents 11% of that same amount. The general fund experienced an increase of \$2.1 million, which is due to a revenue surplus totaling \$889,000 and unspent appropriations totaling \$1.3 million.

The highway construction fund is used to account for highway construction projects that are reimbursable by the Massachusetts Department of Transportation. In fiscal 2013, the Town recorded reimbursable expenditures and capital grant revenue totaling \$847,000.

The school projects fund experienced an increase of \$3.1 million. This increase is due to reimbursements received from the Massachusetts School Business Authority, as well as the permanent financing of current and prior year construction costs.

The nonmajor funds experienced an increase of \$5.0 million that was due to timing differences between the receipt and expenditure of grant funds and the permanent financing of various capital projects.

General Fund Budgetary Highlights

The \$3.0 million increase between the original budget and the final amended budget was due to supplemental appropriations approved at Special Town Meeting to fund capital articles.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Major capital events during the current fiscal year include the following:

- Governmental activities included additions to construction in progress, machinery and equipment, infrastructure, vehicles and library books totaling \$22.9 million.
- Business-type activities included additions to construction in progress, machinery and equipment, water and sewer infrastructure, and vehicles, totaling \$940,000.

Debt Administration. The Town of Andover maintains an AAA Bond Rating with Standard & Poor's Investors Service and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt for governmental activities, as of June 30, 2013, totaled \$64.8 million, of which \$41.9 million is related to school projects, \$6.2 million is for public safety projects, and the remaining balance of \$16.7 million is for other CIP related projects. The Town issued \$24.0 million of governmental long-term debt of which \$19.4 million relates to long-term general obligation bonds to fund school projects, public safety, municipal services, and land acquisition and \$4.6 million relates to general obligation refunding bonds.

The sewer and water enterprise funds have outstanding long-term debt totaling \$23.0 million and \$10.0 million, respectively, at year-end. \$3.2 million was issued in fiscal 2013 to fund acquisitions of machinery, infrastructure, and vehicles. The debt is fully supported by rates and does not rely on a general fund subsidy.

The Commonwealth of Massachusetts is obligated to provide school construction grants for approved school projects. The grants are paid annually to support future interest expense on school construction related long-term debt and the construction costs funded by that debt. At June 30, 2013, the Town is scheduled to receive \$264,000 of future interest grants and \$5,532,000 million of capital grants. The payment schedule for the Commonwealth is structured to match the debt service expenditures.

Beginning in fiscal year 2005, the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2013, the Town has recorded capital grant proceeds totaling \$6.8 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$2.7 million of grant proceeds in fiscal 2014.

In order to take advantage of favorable interest rates, the Town issued \$4,595,000 of general obligation refunding bonds on December 19, 2012. \$4,850,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$459,590. This amount is recorded as deferred charges on refunding and is being amortized over the life of the refunding debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$462,187 and resulted in an economic gain of \$411,232. At June 30, 2013, \$4,850,000 of bonds outstanding from the advance refunding is considered defeased.

Please refer to notes 4, 6, and 7 for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Andover's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Offices, 36 Bartlet Street, Andover, Massachusetts 01810.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 34,150,898	\$ 10,230,470	\$ 44,381,368
Investments.....	10,465,057	-	10,465,057
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,074,638	-	2,074,638
Tax liens.....	1,634,203	24,770	1,658,973
Motor vehicle and other excise taxes.....	736,189	-	736,189
User fees.....	-	4,582,104	4,582,104
Departmental and other.....	565,344	-	565,344
Special assessments.....	-	761,633	761,633
Intergovernmental.....	8,310,996	-	8,310,996
Tax foreclosures.....	250,160	-	250,160
Total current assets.....	<u>58,187,485</u>	<u>15,598,977</u>	<u>73,786,462</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	223,742	-	223,742
Intergovernmental.....	4,116,137	-	4,116,137
Special assessments.....	-	9,329,183	9,329,183
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	51,406,786	415,673	51,822,459
Depreciable.....	<u>102,004,657</u>	<u>74,236,851</u>	<u>176,241,508</u>
Total noncurrent assets.....	<u>157,751,322</u>	<u>83,981,707</u>	<u>241,733,029</u>
TOTAL ASSETS.....	<u>215,938,807</u>	<u>99,580,684</u>	<u>315,519,491</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	3,828,049	62,316	3,890,365
Accrued payroll.....	4,630,684	41,623	4,672,307
Tax refunds payable.....	952,000	-	952,000
Accrued interest.....	774,955	263,203	1,038,158
Abandoned property.....	14,460	-	14,460
Customer deposits payable.....	27,503	9,438	36,941
Landfill closure.....	171,000	-	171,000
Compensated absences.....	1,426,000	122,000	1,548,000
Workers' compensation.....	34,000	-	34,000
Bonds payable.....	<u>7,034,527</u>	<u>2,743,110</u>	<u>9,777,637</u>
Total current liabilities.....	<u>18,893,178</u>	<u>3,241,690</u>	<u>22,134,868</u>
NONCURRENT:			
Landfill closure.....	14,271,000	-	14,271,000
Compensated absences.....	3,319,000	276,000	3,595,000
Workers' compensation.....	305,000	-	305,000
Other postemployment benefits.....	52,029,000	1,159,000	53,188,000
Bonds payable.....	<u>60,090,493</u>	<u>30,692,495</u>	<u>90,782,988</u>
Total noncurrent liabilities.....	<u>130,014,493</u>	<u>32,127,495</u>	<u>162,141,988</u>
TOTAL LIABILITIES.....	<u>148,907,671</u>	<u>35,369,185</u>	<u>184,276,856</u>
NET POSITION			
Net investment in capital assets.....	104,403,021	45,822,689	150,225,710
Restricted for:			
Permanent funds:			
Expendable.....	546,536	-	546,536
Nonexpendable.....	1,278,486	-	1,278,486
Debt service.....	1,092,228	-	1,092,228
Grants and gifts.....	6,333,156	-	6,333,156
Unrestricted.....	<u>(46,622,291)</u>	<u>18,388,810</u>	<u>(28,233,481)</u>
TOTAL NET POSITION.....	<u>\$ 67,031,136</u>	<u>\$ 64,211,499</u>	<u>\$ 131,242,635</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 9,997,575	\$ 1,222,385	\$ 327,473	\$ -	\$ (8,447,717)
Public safety.....	21,349,177	5,376,825	270,328	-	(15,702,024)
Education.....	111,484,537	4,533,644	26,139,620	7,690,079	(73,121,194)
Municipal services.....	14,475,054	162,610	39,912	1,553,595	(12,718,937)
Community services.....	3,497,572	1,623,218	337,100	458,700	(1,078,554)
Library.....	3,291,536	9,635	29,383	-	(3,252,518)
Interest.....	2,180,097	-	186,960	-	(1,993,137)
Total Governmental Activities.....	<u>166,275,548</u>	<u>12,928,317</u>	<u>27,330,776</u>	<u>9,702,374</u>	(116,314,081)
<i>Business-Type Activities:</i>					
Water.....	6,363,699	7,244,362	-	-	880,663
Sewer.....	4,173,881	4,241,515	-	42,339	109,973
Total Business-Type Activities.....	<u>10,537,580</u>	<u>11,485,877</u>	<u>-</u>	<u>42,339</u>	990,636
Total Primary Government.....	<u>\$ 176,813,128</u>	<u>\$ 24,414,194</u>	<u>\$ 27,330,776</u>	<u>\$ 9,744,713</u>	<u>\$ (115,323,445)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (116,314,081)	\$ 990,636	\$ (115,323,445)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	110,652,457	-	110,652,457
Tax liens.....	420,138	-	420,138
Motor vehicle excise taxes.....	4,903,920	-	4,903,920
Hotel/motel tax.....	1,526,835	-	1,526,835
Meals tax.....	547,235	-	547,235
Penalties and interest on taxes.....	298,550	-	298,550
Grants and contributions not restricted to specific programs.....	2,099,507	-	2,099,507
Unrestricted investment income.....	74,364	10,245	84,609
Miscellaneous.....	139,881	-	139,881
<i>Transfers, net</i>	<u>1,528,260</u>	<u>(1,528,260)</u>	<u>-</u>
Total general revenues, special items, and transfers.....	<u>122,191,147</u>	<u>(1,518,015)</u>	<u>120,673,132</u>
Change in net position.....	5,877,066	(527,379)	5,349,687
<i>Net Position:</i>			
Beginning of year.....	<u>61,154,070</u>	<u>64,738,878</u>	<u>125,892,948</u>
End of year.....	\$ <u><u>67,031,136</u></u>	\$ <u><u>64,211,499</u></u>	\$ <u><u>131,242,635</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 13,378,930	\$ -	\$ 3,098,634	\$ 16,213,298	\$ 32,690,862
Investments.....	7,834,541	-	-	2,630,516	10,465,057
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	2,074,638	-	-	-	2,074,638
Real estate tax deferrals.....	223,742	-	-	-	223,742
Tax liens.....	1,634,203	-	-	-	1,634,203
Motor vehicle and other excise taxes.....	736,189	-	-	-	736,189
Departmental and other.....	452,678	-	-	112,666	565,344
Intergovernmental.....	5,532,244	2,963,064	2,732,905	1,198,920	12,427,133
Due from other funds.....	3,795	-	-	-	3,795
Tax foreclosures.....	250,160	-	-	-	250,160
TOTAL ASSETS.....	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 1,075,116	\$ 341,074	\$ 2,129,912	\$ 272,147	\$ 3,818,249
Accrued payroll.....	4,441,819	-	-	188,865	4,630,684
Tax refunds payable.....	952,000	-	-	-	952,000
Liabilities due depositors.....	27,503	-	-	-	27,503
Abandoned property.....	14,460	-	-	-	14,460
Deferred revenues.....	10,520,119	2,618,195	2,732,905	109,609	15,980,828
Due to other funds.....	-	3,795	-	-	3,795
TOTAL LIABILITIES.....	17,031,017	2,963,064	4,862,817	570,621	25,427,519
FUND BALANCES:					
Nonspendable.....	-	-	-	1,278,486	1,278,486
Restricted.....	1,092,228	-	968,722	18,306,293	20,367,243
Committed.....	100,734	-	-	-	100,734
Assigned.....	1,181,371	-	-	-	1,181,371
Unassigned.....	12,715,770	-	-	-	12,715,770
TOTAL FUND BALANCES.....	15,090,103	-	968,722	19,584,779	35,643,604
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123

See notes to basic financial statements.

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

JUNE 30, 2013

Total governmental fund balances.....	\$	35,643,604
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		153,411,443
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		15,980,828
Internal service funds are used by management to account for unemployment, health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....		1,111,236
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(774,955)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(67,125,020)	
Landfill closure.....	(14,442,000)	
Compensated absences.....	(4,745,000)	
Other postemployment benefits.....	<u>(52,029,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(138,341,020)</u>
Net position of governmental activities.....	\$	<u>67,031,136</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 110,384,336	\$ -	\$ -	\$ -	\$ 110,384,336
Tax liens.....	88,055	-	-	-	88,055
Motor vehicle excise taxes.....	4,745,068	-	-	-	4,745,068
Hotel/motel tax.....	1,526,835	-	-	-	1,526,835
Meals tax.....	547,235	-	-	-	547,235
Charges for services.....	-	-	-	126,718	126,718
Penalties and interest on taxes.....	298,550	-	-	-	298,550
Fees.....	-	-	-	381,835	381,835
Licenses and permits.....	2,334,522	-	-	-	2,334,522
Fines and forfeitures.....	-	-	-	1,100	1,100
Intergovernmental.....	24,894,505	846,651	5,273,236	5,424,640	36,439,032
Departmental and other.....	3,100,973	-	-	7,437,796	10,538,769
Contributions.....	-	-	-	499,627	499,627
Investment income.....	40,893	-	-	11,506	52,399
TOTAL REVENUES.....	147,960,972	846,651	5,273,236	13,883,222	167,964,081
EXPENDITURES:					
Current:					
General government.....	7,083,243	-	-	499,397	7,582,640
Public safety.....	14,479,482	-	-	1,481,601	15,961,083
Education.....	66,434,651	-	-	8,908,034	75,342,685
Municipal services.....	10,491,489	846,651	-	145,976	11,484,116
Community services.....	1,614,833	-	-	1,358,140	2,972,973
Library.....	2,466,793	-	-	65,789	2,532,582
Pension benefits.....	18,565,841	-	-	-	18,565,841
Property and liability insurance.....	717,613	-	-	-	717,613
Employee benefits.....	14,211,500	-	-	-	14,211,500
State and county charges.....	2,468,820	-	-	-	2,468,820
Capital outlay.....	-	-	16,478,073	5,526,883	22,004,956
Debt service:					
Principal.....	5,813,900	-	-	-	5,813,900
Interest.....	1,871,364	-	-	-	1,871,364
TOTAL EXPENDITURES.....	146,219,529	846,651	16,478,073	17,985,820	181,530,073
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	1,741,443	-	(11,204,837)	(4,102,598)	(13,565,992)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds.....	-	-	14,000,000	6,555,000	20,555,000
Issuance of refunding bonds.....	3,423,300	-	-	-	3,423,300
Premium from issuance of bonds.....	1,657,247	-	-	-	1,657,247
Premium from issuance of refunding bonds.....	599,483	-	-	-	599,483
Payment to refunded bonds escrow agent.....	(3,957,244)	-	-	-	(3,957,244)
Transfers in.....	1,659,760	-	348,300	2,881,000	4,889,060
Transfers out.....	(3,017,500)	-	-	(343,300)	(3,360,800)
TOTAL OTHER FINANCING SOURCES (USES)...	365,046	-	14,348,300	9,092,700	23,806,046
NET CHANGE IN FUND BALANCES.....	2,106,489	-	3,143,463	4,990,102	10,240,054
FUND BALANCES AT BEGINNING OF YEAR.....	12,983,614	-	(2,174,741)	14,594,677	25,403,550
FUND BALANCES AT END OF YEAR.....	\$ 15,090,103	\$ -	\$ 968,722	\$ 19,584,779	\$ 35,643,604

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds..... \$ 10,240,054

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay..... 22,881,895
Depreciation expense..... (6,328,735)

Net effect of reporting capital assets..... 16,553,160

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..... 2,658,486

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Issuance of bonds..... (20,555,000)
Issuance of refunding bonds..... (3,423,300)
Payment to refunded bonds escrow agent..... 3,957,244
Debt service principal payments..... 5,813,900
Deferral of premium on bonds (1,986,979)
Amortization of deferred charges on refunding..... (193,687)

Net effect of reporting long-term debt..... (16,387,822)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual..... (173,000)
Net change in accrued interest on long-term debt..... (308,733)
Net change in other postemployment benefits..... (6,357,000)
Net change in landfill closure liability..... (690,000)

Net effect of recording long-term liabilities and amortizing deferred losses..... (7,528,733)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities..... 341,921

Change in net position of governmental activities..... \$ 5,877,066

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 5,563,965	\$ 4,666,505	\$ 10,230,470	\$ 1,460,036
Receivables, net of allowance for uncollectibles:				
User fees.....	2,895,405	1,686,699	4,582,104	-
Water and sewer liens.....	17,339	7,431	24,770	-
Special assessments.....	-	761,633	761,633	-
Total current assets.....	<u>8,476,709</u>	<u>7,122,268</u>	<u>15,598,977</u>	<u>1,460,036</u>
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Special assessments.....	-	9,329,183	9,329,183	-
Capital assets, net of accumulated depreciation:				
Nondepreciable.....	266,017	149,656	415,673	-
Depreciable.....	<u>35,488,256</u>	<u>38,748,595</u>	<u>74,236,851</u>	<u>-</u>
Total noncurrent assets.....	<u>35,754,273</u>	<u>48,227,434</u>	<u>83,981,707</u>	<u>-</u>
TOTAL ASSETS.....	<u>44,230,982</u>	<u>55,349,702</u>	<u>99,580,684</u>	<u>1,460,036</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	57,771	4,545	62,316	9,800
Accrued payroll.....	33,653	7,970	41,623	-
Accrued interest.....	73,892	189,311	263,203	-
Other Liabilities.....	-	9,438	9,438	-
Compensated absences.....	104,000	18,000	122,000	-
Workers' compensation.....	-	-	-	34,000
Bonds payable.....	<u>766,291</u>	<u>1,976,819</u>	<u>2,743,110</u>	<u>-</u>
Total current liabilities.....	<u>1,035,607</u>	<u>2,206,083</u>	<u>3,241,690</u>	<u>43,800</u>
NONCURRENT:				
Compensated absences.....	225,000	51,000	276,000	-
Workers' compensation.....	-	-	-	305,000
Other postemployment benefits.....	970,000	189,000	1,159,000	-
Bonds payable.....	<u>9,340,934</u>	<u>21,351,561</u>	<u>30,692,495</u>	<u>-</u>
Total noncurrent liabilities.....	<u>10,535,934</u>	<u>21,591,561</u>	<u>32,127,495</u>	<u>305,000</u>
TOTAL LIABILITIES.....	<u>11,571,541</u>	<u>23,797,644</u>	<u>35,369,185</u>	<u>348,800</u>
NET POSITION				
Net investment in capital assets.....	28,001,948	17,820,741	45,822,689	-
Unrestricted.....	<u>4,657,493</u>	<u>13,731,317</u>	<u>18,388,810</u>	<u>1,111,236</u>
TOTAL NET POSITION.....	<u>\$ 32,659,441</u>	<u>\$ 31,552,058</u>	<u>\$ 64,211,499</u>	<u>\$ 1,111,236</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>OPERATING REVENUES:</u>				
Employee contributions.....	\$ -	\$ -	\$ -	\$ 4,006,835
Employer contributions.....	-	-	-	14,170,593
Charges for services.....	7,244,362	4,241,515	11,485,877	-
Intergovernmental.....	-	-	-	495,955
TOTAL OPERATING REVENUES.....	7,244,362	4,241,515	11,485,877	18,673,383
<u>OPERATING EXPENSES:</u>				
Cost of services and administration.....	4,209,050	2,208,151	6,417,201	-
Depreciation.....	1,879,719	1,160,258	3,039,977	-
Employee benefits.....	-	-	-	18,316,625
Property and liability insurance.....	-	-	-	16,624
TOTAL OPERATING EXPENSES.....	6,088,769	3,368,409	9,457,178	18,333,249
OPERATING INCOME (LOSS).....	1,155,593	873,106	2,028,699	340,134
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	5,668	4,577	10,245	1,787
Interest expense.....	(274,930)	(805,472)	(1,080,402)	-
Special assessments - betterments.....	-	42,339	42,339	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(269,262)	(758,556)	(1,027,818)	1,787
INCOME (LOSS) BEFORE TRANSFERS.....	886,331	114,550	1,000,881	341,921
<u>TRANSFERS:</u>				
Transfers in.....	55,000	17,500	72,500	-
Transfers out.....	(1,151,024)	(449,736)	(1,600,760)	-
TOTAL OPERATING TRANSFERS.....	(1,096,024)	(432,236)	(1,528,260)	-
CHANGE IN NET POSITION.....	(209,693)	(317,686)	(527,379)	341,921
NET POSITION AT BEGINNING OF YEAR.....	32,869,134	31,869,744	64,738,878	769,315
NET POSITION AT END OF YEAR.....	\$ 32,659,441	\$ 31,552,058	\$ 64,211,499	\$ 1,111,236

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 7,121,117	\$ 4,259,250	\$ 11,380,367	\$ 4,006,835
Receipts from interfund services provided.....	-	-	-	14,170,593
Receipts from other governments.....	-	-	-	495,955
Payments to vendors.....	(2,400,531)	(1,741,507)	(4,142,038)	(16,624)
Payments to employees.....	(1,630,123)	(414,588)	(2,044,711)	(85,815)
Payments for interfund services used.....	-	-	-	(18,232,510)
NET CASH FROM OPERATING ACTIVITIES.....	3,090,463	2,103,155	5,193,618	338,434
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfers in.....	55,000	17,500	72,500	-
Transfers out.....	(1,151,024)	(449,736)	(1,600,760)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,096,024)	(432,236)	(1,528,260)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	600,000	1,400,000	2,000,000	-
Proceeds from the issuance of refunding bonds.....	235,050	936,650	1,171,700	-
Premium from the issuance of bonds and notes.....	41,162	117,755	158,917	-
Premium from the issuance of refunding bonds.....	49,015	164,025	213,040	-
Acquisition and construction of capital assets.....	(464,703)	(733,486)	(1,198,189)	-
Principal payments on bonds and notes.....	(827,185)	(1,829,700)	(2,656,885)	-
Payment to refunded bonds escrow agent.....	(250,000)	(1,000,000)	(1,250,000)	-
Refunding bond issue costs.....	(35,597)	(106,460)	(142,057)	-
Special assessments.....	-	1,188,584	1,188,584	-
Interest expense.....	(266,885)	(813,209)	(1,080,094)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(919,143)	(675,841)	(1,594,984)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	5,668	4,577	10,245	1,787
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,080,964	999,655	2,080,619	340,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,483,001	3,666,850	8,149,851	1,119,815
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,563,965	\$ 4,666,505	\$ 10,230,470	\$ 1,460,036
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ 1,155,593	\$ 873,106	\$ 2,028,699	\$ 340,134
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,879,719	1,160,258	3,039,977	-
Changes in assets and liabilities:				
Water and sewer liens.....	3,614	3,543	7,157	-
User fees.....	(126,859)	13,928	(112,931)	-
Warrants payable.....	(51,257)	35,086	(16,171)	5,300
Accrued payroll.....	33,653	7,970	41,623	-
Other postemployment benefits.....	167,000	8,000	175,000	-
Liabilities due depositors.....	-	264	264	-
Accrued compensated absences.....	29,000	1,000	30,000	-
Workers' compensation.....	-	-	-	(7,000)
Total adjustments.....	1,934,870	1,230,049	3,164,919	(1,700)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,090,463	\$ 2,103,155	\$ 5,193,618	\$ 338,434

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 686,933	\$ -	\$ 124,373	\$ 761,222
Investments:				
PRIT funds.....	96,187,295	1,101,668	-	-
Government sponsored enterprises.....	-	-	1,302,422	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	16,072	-	-	-
TOTAL ASSETS	<u>96,890,300</u>	<u>1,101,668</u>	<u>1,426,795</u>	<u>761,222</u>
LIABILITIES				
Warrants payable.....	2,975	-	-	-
Liabilities due depositors.....	-	-	-	761,222
TOTAL LIABILITIES	<u>2,975</u>	<u>-</u>	<u>-</u>	<u>761,222</u>
NET POSITION				
Held in trust for pension benefits.....	96,887,325	-	-	-
Held in trust for OPEB benefits.....	-	1,101,668	-	-
Held in trust for other purposes.....	-	-	1,426,795	-
	<u>\$ 96,887,325</u>	<u>1,101,668</u>	<u>\$ 1,426,795</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 5,383,550	\$ 300,000	\$ -
Employee.....	3,232,068	-	-
Total contributions.....	8,615,618	300,000	-
Net investment income (loss):			
Net change in fair value of investments.....	8,994,324	-	192,269
Interest.....	2,879,330	95,420	2,739
Total investment income (loss).....	11,873,654	95,420	195,008
Less: investment expense.....	(480,953)	-	-
Net investment income (loss).....	11,392,701	95,420	195,008
Intergovernmental.....	102,465	-	-
Transfers from other systems.....	599,103	-	-
TOTAL ADDITIONS.....	20,709,887	395,420	195,008
DEDUCTIONS:			
Administration.....	220,531	-	-
Transfers to other systems.....	219,576	-	-
Retirement benefits and refunds.....	10,649,031	-	-
Educational scholarships.....	-	-	37,183
TOTAL DEDUCTIONS.....	11,089,138	-	37,183
CHANGE IN NET POSITION.....	9,620,749	395,420	157,825
NET POSITION AT BEGINNING OF YEAR.....	87,266,576	706,248	1,268,970
NET POSITION AT END OF YEAR.....	\$ 96,887,325	\$ 1,101,668	\$ 1,426,795

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Board of Selectmen (the "Board").

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated and 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 the following 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.

Greater Lawrence Regional Technical Vocational School (GLRTVS)

The GLRTVS is governed by a seven member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the GLRTVS' debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town does not have an equity interest in the GLRTVS. For the fiscal year ended June 30, 2013, the Town's assessment totaled \$399,331. Separate financial statements may be obtained by writing to the Treasurer of the GLRTVS at 57 River Road, Andover, MA 01810.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of the relationship between the Town and the component unit.

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

The System did 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 36 Bartlet Street, Andover, Massachusetts 01810.

Availability of Financial Information for Component Units

The System did 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 36 Bartlet Street, Andover, Massachusetts 01810.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

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

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

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

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

The following major governmental funds are reported:

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

The *school projects* fund is used to account for major school capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes, state grants, and other available funds.

The *highway construction* fund is used to account for roadway improvements funded through the Massachusetts Department of Transportation.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation and general liability insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, except for agency funds which have no measurement focus. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

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

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings. The Town's educational scholarships are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The Town accounts for contractor's security deposits, local church deposits and receipts and disbursements on behalf of the Merrimack Valley Library Consortium in this fund.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes, and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 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 August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

Tax liens may be subject to a foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the Town.

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

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

Motor Vehicle Excise

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

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

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at fiscal year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year 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.

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

Departmental and Other

Departmental and other receivables consist primarily of police details, fire details and ambulance receivables and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

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

F. Inventories

Government-Wide and Fund Financial Statements

Inventories 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.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, buildings and improvements, machinery and 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 activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. Capital assets (excluding land 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>
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5
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.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has no transactions that qualify for reporting in this category for fiscal year 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has no transactions that would qualify for reporting in this category for fiscal year 2013.

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Interfund Transfers

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

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

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

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents 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 (full accrual) financial statements.

L. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Net position has been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

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

“Debt service” represents the amount accumulated for the future payment of general obligation bond principal and interest.

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision-making authority for the government that can, by adoption of an article, which constitutes the most binding restraint, prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the article remains in place until a similar action is taken to remove or revise the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by resolution authorized the Town Accountant to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

N. Investment Income

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

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Compensated absences are reported in governmental funds only if they have matured.

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 maturity of the liability.

P. Fund Deficits

The workers compensation fund has a deficit of \$264,442 that will be funded by employer contributions.

Q. 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.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Andover's deposits may not be returned to it. The Town's policy allows unlimited deposits in bank accounts or CD's (up to one year maturity) that are fully collateralized through a third party agreement. For uncollateralized bank accounts and CD's, deposits may not exceed Federal Deposit Insurance Corporation (FDIC) or other deposit insurance coverage unless the bank has received the highest bank rating as determined by a recognized bank rating firm.

These deposits will be limited to no more than 5% of an institution’s assets and no more than 10% of the Town’s cash. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. CD’s will be purchased for no more than three months and will be reviewed frequently. The Town’s policy also allows unlimited investments in money market funds, which are allowed by statute and are considered to be liquid funds.

At fiscal year-end, the carrying amount of deposits totaled \$42,726,678 and the bank balance totaled \$45,943,908. Of the bank balance, \$1,687,090 was covered by Federal Depository Insurance and \$44,256,818 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2012, the carrying amount of deposits for the Retirement System totaled \$686,933 and the bank balance totaled \$729,462. The bank balance was covered by Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

As of June 30, 2013, the Town of Andover had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 to 5
Debt Securities:			
Government agencies.....	\$ 675,479	\$ 302,063	\$ 373,416
Government sponsored enterprises.....	9,054,578	1,220,078	7,834,500
Corporate bonds.....	789,689	789,689	-
Total debt securities.....	10,519,746	\$ 2,311,830	\$ 8,207,916
Other Investments:			
Money market mutual funds.....	905,911		
Equity securities.....	274,635		
Equity mutual funds.....	2,074,766		
MMDT.....	1,634,374		
Total investments.....	\$ 15,409,432		

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments of \$675,479 in government agencies, \$9,054,578 in government sponsored enterprises, \$789,689 in corporate bonds and \$274,635 in equity securities, the Town has a custodial credit risk exposure of \$10,794,381 because the related securities are uninsured, unregistered and held by the counterparty. The Town’s policy requires all securities, not held directly by the Town, to be held in the Town’s name and tax identification number by a third party custodian approved by the Treasurer.

The System does not have any investments subject to custodial credit risk. The System does not have an investment policy for custodial credit risk.

Interest Rate Risk

The Town’s investment policy limits investment maturities to one year, except for the trust funds which are not limited, as a means of managing its exposure to fair value losses arising from increasing interest rates. The System does not have formal investment policies that limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

As of December 31, 2012, the Retirement System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT.....	\$ <u>96,187,295</u>

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 years.

Credit Risk

The Town’s investment policy limits investments in debt securities to United States Treasuries and Agency obligations, which carry a AA+ rating and other investments that must be in high grade securities, a high concentration of which must be rated A and above. Standard & Poor’s Investors Service rated the \$789,689 of corporate bonds AA+; \$1,634,374 of MMDT shares, \$905,911 of money market mutual funds and \$2,074,766 of equity mutual funds were unrated.

The Retirement System has not adopted a formal policy related to Credit Risk and \$96,187,295 of PRIT shares were unrated.

Concentration of Credit Risk

The Town will minimize the concentration of credit risk by diversifying the investment portfolio, so that the impact of potential losses from any one type of security or issuer will be minimized. No more than 5% of the Town’s investments are invested in any one issuer.

The System places no limit on the amount the System may invest in any one issuer. The System did not have any investments that were subject to concentration of credit risk.

NOTE 3 – RECEIVABLES

At June 30, 2013, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 2,074,638	\$ -	\$ 2,074,638
Real estate tax deferrals.....	223,742	-	223,742
Tax liens.....	1,634,203	-	1,634,203
Motor vehicle and other excise taxes.....	1,364,374	(628,185)	736,189
Departmental and other.....	625,344	(60,000)	565,344
Intergovernmental.....	12,427,133	-	12,427,133
 Total.....	 \$ 18,349,434	 \$ (688,185)	 \$ 17,661,249

At June 30, 2013, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 2,895,405	\$ -	\$ 2,895,405
Sewer user fees.....	1,686,699	-	1,686,699
Water liens.....	17,339	-	17,339
Sewer liens.....	7,431	-	7,431
Sewer special assessments.....	10,090,816	-	10,090,816
 Total.....	 \$ 14,697,690	 \$ -	 \$ 14,697,690

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,690,903	\$ -	\$ 1,690,903
Real estate tax deferrals.....	223,742	-	223,742
Tax liens.....	1,634,203	-	1,634,203
Motor vehicle and other excise.....	736,189	-	736,189
Departmental.....	452,678	109,609	562,287
Intergovernmental.....	5,532,244	5,351,100	10,883,344
Tax foreclosure.....	250,160	-	250,160
 Total.....	 \$ 10,520,119	 \$ 5,460,709	 \$ 15,980,828

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 29,903,293	\$ -	\$ -	\$ 29,903,293
Construction in progress.....	5,373,877	16,522,086	(392,470)	21,503,493
Total capital assets not being depreciated.....	35,277,170	16,522,086	(392,470)	51,406,786
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	137,061,570	2,977,064	-	140,038,634
Machinery and equipment.....	10,230,109	1,863,494	(40,908)	12,052,695
Land improvements.....	20,784,162	-	-	20,784,162
Infrastructure.....	36,902,614	1,090,935	-	37,993,549
Vehicles.....	5,829,687	490,868	(280,694)	6,039,861
Library books.....	6,477,852	329,918	-	6,807,770
Total capital assets being depreciated.....	217,285,994	6,752,279	(321,602)	223,716,671
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(72,667,259)	(2,715,420)	-	(75,382,679)
Machinery and equipment.....	(7,449,116)	(947,027)	40,908	(8,355,235)
Land improvements.....	(4,735,962)	(1,031,752)	-	(5,767,714)
Infrastructure.....	(22,217,190)	(848,878)	-	(23,066,068)
Vehicles.....	(3,725,736)	(486,060)	280,694	(3,931,102)
Library books.....	(4,909,618)	(299,598)	-	(5,209,216)
Total accumulated depreciation.....	(115,704,881)	(6,328,735)	321,602	(121,712,014)
Total capital assets being depreciated, net.....	101,581,113	423,544	-	102,004,657
Total governmental activities capital assets, net.....	\$ 136,858,283	\$ 16,945,630	\$ (392,470)	\$ 153,411,443

	Beginning Balance	Increases	Decreases	Ending Balance
Water Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 266,017	\$ -	\$ -	\$ 266,017
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	40,000	-	-	40,000
Machinery and equipment.....	2,548,149	309,938	-	2,858,087
Land improvements.....	883,276	-	-	883,276
Infrastructure.....	81,264,377	77,393	-	81,341,770
Vehicles.....	233,191	77,372	(28,390)	282,173
Total capital assets being depreciated.....	84,968,993	464,703	(28,390)	85,405,306
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(40,000)	-	-	(40,000)
Machinery and equipment.....	(725,156)	(115,359)	-	(840,515)
Land improvements.....	(71,425)	(23,396)	-	(94,821)
Infrastructure.....	(47,001,536)	(1,730,729)	-	(48,732,265)
Vehicles.....	(227,603)	(10,236)	28,390	(209,449)
Total accumulated depreciation.....	(48,065,720)	(1,879,720)	28,390	(49,917,050)
Total capital assets being depreciated, net.....	36,903,273	(1,415,017)	-	35,488,256
Total water business-type activities capital assets, net.....	\$ 37,169,290	\$ (1,415,017)	\$ -	\$ 35,754,273

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,130	\$ -	\$ -	\$ 115,130
Construction in progress.....	284,113	8,533	(258,120)	34,526
Total capital assets not being depreciated.....	399,243	8,533	(258,120)	149,656
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	1,281,181	-	-	1,281,181
Machinery and equipment.....	1,083,123	85,000	-	1,168,123
Infrastructure.....	52,647,008	397,797	-	53,044,805
Vehicles.....	91,351	242,156	(52,742)	280,765
Total capital assets being depreciated.....	55,102,663	724,953	(52,742)	55,774,874
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(976,902)	(34,935)	-	(1,011,837)
Machinery and equipment.....	(242,125)	(58,569)	-	(300,694)
Infrastructure.....	(14,608,384)	(1,050,779)	-	(15,659,163)
Vehicles.....	(91,351)	(15,976)	52,742	(54,585)
Total accumulated depreciation.....	(15,918,762)	(1,160,259)	52,742	(17,026,279)
Total capital assets being depreciated, net.....	39,183,901	(435,306)	-	38,748,595
Total sewer business-type activities capital assets, net.....	\$ 39,583,144	\$ (426,773)	\$ (258,120)	\$ 38,898,251

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

Governmental Activities:

General government.....	\$ 281,758
Public safety.....	750,565
Education.....	3,494,456
Municipal services.....	1,250,085
Community services.....	425,167
Library.....	<u>126,704</u>

Total depreciation expense - governmental activities..... \$ 6,328,735

Business-Type Activities:

Water.....	\$ 1,879,720
Sewer.....	<u>1,160,259</u>

Total depreciation expense - business-type activities..... \$ 3,039,979

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2013, the Town has governmental receivables and payables totaling \$3,795. This balance is the result of the general fund covering short-term cash flow needs of the highway construction fund that will be funded by future grant proceeds.

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	School Projects	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 130,000	\$ 2,815,000	55,000	17,500	\$ 3,017,500 (1)
Nonmajor Governmental Funds.....	59,000	218,300	66,000	-	-	343,300 (2)
Water Enterprise Fund.....	1,151,024	-	-	-	-	1,151,024 (3)
Sewer Enterprise Fund.....	<u>449,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>449,736 (3)</u>
Total.....	<u>\$ 1,659,760</u>	<u>\$ 348,300</u>	<u>\$ 2,881,000</u>	<u>\$ 55,000</u>	<u>\$ 17,500</u>	<u>\$ 4,961,560</u>

- (1) Includes budgeted transfers to the capital projects fund for current year capital articles totaling \$2,945,000. Also includes transfers to the water and sewer enterprise funds totaling \$72,500 to fund water and sewer salary increases.
- (2) Includes budgeted transfers from Wetland Filing Fees and Off Street Parking to the general fund, as well as various transfers between Nonmajor Governmental funds and the School Projects fund.
- (3) Includes budgeted transfers of indirect costs to the general fund.

NOTE 6 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

Governmental Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2012	Renewed/ Issued	Retired/ Redeemed	June 30, 2013
BAN	Bancroft school.....	1.50%	12/20/12	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law 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". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In order to take advantage of favorable interest rates, the Town issued \$4,595,000 of General Obligation Refunding Bonds on December 19, 2012. \$4,850,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$459,590. This amount is being netted against the new debt and amortized over the life of the refunding debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$462,187 and resulted in an economic gain of \$411,232. At June 30, 2013, \$4,850,000 of bonds outstanding from the advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Public safety.....	2029	\$ 26,859,300	2.00 - 5.00	\$ 7,112,000	\$ 193,300	\$ 1,057,000	\$ 6,248,300 (1)
School projects.....	2033	106,545,512	2.00 - 5.72	30,120,699	17,632,900	5,862,900	41,890,699 (1)
Municipal services.....	2033	36,554,000	2.75 - 5.13	7,040,000	5,025,000	844,000	11,221,000 (2)
Land acquisition.....	2031	8,887,100	3.50 - 5.98	5,730,000	1,127,100	1,615,000	5,242,100 (1)
Culture and recreation.....	2019	6,993,000	2.75 - 5.00	235,000	-	35,000	200,000 (1)
Total governmental bonds payable.....				50,237,699	23,978,300	9,413,900	64,802,099
Add: unamortized premium.....				1,307,955	2,256,730	269,751	3,294,934
Less: deferred charges on refunding.....				(808,456)	357,244	193,687	(972,013)
Total governmental bonds payable, net.....				<u>\$ 50,737,198</u>	<u>\$ 26,592,274</u>	<u>\$ 9,877,338</u>	<u>\$ 67,125,020</u>

- (1) Debt issued to finance Town capital expenditures.
- (2) Debt issued to finance Town capital expenditures with the exception of \$1.6 million for landfill closure.

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 6,764,641	\$ 2,247,322	\$ 9,011,963
2015.....	6,522,468	2,004,035	8,526,503
2016.....	6,447,443	1,782,792	8,230,235
2017.....	5,431,625	1,572,476	7,004,101
2018.....	4,492,266	1,404,947	5,897,213
2019.....	4,317,716	1,230,656	5,548,372
2020.....	3,988,175	1,083,586	5,071,761
2021.....	3,788,643	941,249	4,729,892
2022.....	3,359,120	803,716	4,162,836
2023.....	2,884,608	679,181	3,563,789
2024.....	2,465,105	577,899	3,043,004
2025.....	2,395,862	484,328	2,880,190
2026.....	2,316,129	391,481	2,707,610
2027.....	2,026,657	306,956	2,333,613
2028.....	1,857,196	229,647	2,086,843
2029.....	1,502,745	167,920	1,670,665
2030.....	1,303,306	120,638	1,423,944
2031.....	1,153,878	80,237	1,234,115
2032.....	989,461	46,139	1,035,600
2033.....	795,055	21,339	816,394
Totals.....	<u>\$ 64,802,099</u>	<u>\$ 16,176,541</u>	<u>\$ 80,978,640</u>

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Sewer projects.....	2033	\$ 110,073,550	2.75 - 5.00	\$ 23,497,900	\$ 2,336,650	\$ 2,829,700	\$ 23,004,850 (1)
Water projects.....	2033	21,007,602	2.00 - 5.61	10,233,382	835,050	1,077,185	9,991,247 (1)
Total enterprise bonds payable.....				33,731,282	3,171,700	3,906,885	32,996,097
Add: unamortized premium.....				748,371	371,957	142,057	978,271
Less: deferred charges on refunding.....				(529,960)	102,346	93,543	(538,763)
Total enterprise bonds payable, net.....				\$ 33,949,693	\$ 3,646,003	\$ 4,142,485	\$ 33,435,605

(1) Debt issued to finance Town capital expenditures.

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 2,675,129	\$ 1,107,008	\$ 3,782,137
2015.....	2,673,070	1,018,674	3,691,744
2016.....	2,663,563	928,801	3,592,364
2017.....	2,634,956	836,554	3,471,510
2018.....	2,615,004	748,742	3,363,746
2019.....	2,610,358	652,176	3,262,534
2020.....	2,645,819	551,426	3,197,245
2021.....	2,636,391	459,989	3,096,380
2022.....	2,562,076	370,154	2,932,230
2023.....	2,077,876	289,147	2,367,023
2024.....	1,848,792	226,321	2,075,113
2025.....	1,384,579	170,974	1,555,553
2026.....	1,285,987	122,767	1,408,754
2027.....	1,292,268	76,756	1,369,024
2028.....	677,238	40,179	717,417
2029.....	282,991	22,028	305,019
2030.....	125,000	12,360	137,360
2031.....	125,000	8,570	133,570
2032.....	100,000	4,730	104,730
2033.....	80,000	2,196	82,196
Totals.....	\$ 32,996,097	\$ 7,649,553	\$ 40,645,650

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, approximately \$1,551,000 of such assistance was received. Approximately \$5,796,000 will be received in future fiscal years. Of this amount, approximately \$264,000 represents reimbursement of long-term interest costs, and approximately \$5,532,000 represents reimbursement of approved construction costs. Accordingly, a \$5,532,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Beginning in 2005 the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2013, the Town has recorded capital grant proceeds totaling \$6.8 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$2.7 million of grant proceeds in fiscal 2014.

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, 2013, the Town had the following authorized and unissued debt:

Purpose	Amount
Land acquisition.....	\$ 2,525,000
Landfill.....	7,770,000
Municipal buildings.....	2,300,000
Technology.....	500,000
Public works.....	1,000,000
School projects.....	40,200,000
Sewer projects.....	2,550,000
Water projects.....	4,879,000
Total.....	\$ 61,724,000

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Ending Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds payable.....	\$ 50,237,699	\$ 23,978,300	\$ (9,413,900)	\$ 64,802,099	\$ 6,764,641
Add: unamortized premium.....	1,307,955	2,256,730	(269,751)	3,294,934	469,811
Less: deferred charges on refunding.....	(808,456)	(357,244)	193,687	(972,013)	(199,925)
Total bonds payable.....	50,737,198	25,877,786	(9,489,964)	67,125,020	7,034,527
Other postemployment benefits.....	45,672,000	11,742,000	(5,385,000)	52,029,000	-
Workers' compensation.....	346,000	109,000	(116,000)	339,000	34,000
Compensated absences.....	4,572,000	1,455,000	(1,282,000)	4,745,000	1,426,000
Landfill closure.....	13,752,000	761,000	(71,000)	14,442,000	171,000
Total governmental activity long-term liabilities.....	<u>\$ 115,079,198</u>	<u>\$ 39,944,786</u>	<u>\$ (16,343,964)</u>	<u>\$ 138,680,020</u>	<u>\$ 8,665,527</u>
Business-Type Activities:					
Long-term bonds payable.....	\$ 33,731,282	\$ 3,171,700	\$ (3,906,885)	\$ 32,996,097	\$ 2,675,129
Add: unamortized premium.....	748,371	371,957	(142,057)	978,271	166,347
Less: deferred charges on refunding.....	(529,960)	(102,346)	93,543	(538,763)	(98,366)
Total bonds payable.....	33,949,693	3,441,311	(3,955,399)	33,435,605	2,743,110
Other postemployment benefits.....	984,000	283,000	(108,000)	1,159,000	-
Compensated absences.....	368,000	141,000	(111,000)	398,000	122,000
Total business-type activity long-term liabilities.....	<u>\$ 35,301,693</u>	<u>\$ 3,865,311</u>	<u>\$ (4,174,399)</u>	<u>\$ 34,992,605</u>	<u>\$ 2,865,110</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above and include accrued liabilities totaling \$339,000 for workers' compensation. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

Massachusetts General Law Ch. 40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At fiscal year-end, the balance of the general stabilization fund is \$7,248,616 and is reported as unassigned fund balance within the General Fund.

As of June 30, 2013, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Cemetery.....	\$ -	\$ -	\$ 886,857	\$ 886,857
Library.....	-	-	5,000	5,000
Town welfare/other.....	-	-	386,629	386,629
Restricted for:				
Town grants/other revolving.....	-	-	6,050,584	6,050,584
School grants/other revolving.....	-	-	3,178,469	3,178,469
School projects.....	-	968,722	-	968,722
School lunch.....	-	-	369,535	369,535
Road/drainage projects.....	-	-	6,761,681	6,761,681
Conservation.....	-	-	117,735	117,735
Municipal buildings.....	-	-	670,485	670,485
Other.....	-	-	611,268	611,268
Cemetery.....	-	-	194,282	194,282
Library.....	-	-	70,102	70,102
Town welfare/other.....	-	-	282,152	282,152
Debt service.....	1,092,228	-	-	1,092,228
Committed to:				
General government.....	80,000	-	-	80,000
Municipal services.....	1,461	-	-	1,461
Community services.....	19,273	-	-	19,273
Assigned to:				
General government.....	109,464	-	-	109,464
Public safety.....	193,042	-	-	193,042
Education.....	718,754	-	-	718,754
Municipal services.....	136,323	-	-	136,323
Community services.....	10,767	-	-	10,767
Library.....	13,021	-	-	13,021
Unassigned.....	12,715,770	-	-	12,715,770
TOTAL FUND BALANCES.....	\$ 15,090,103	\$ 968,722	\$ 19,584,779	\$ 35,643,604

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. In addition, the Town is self-insured for damages not covered by commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town participates in premium-based health care plans for its active employees and retirees. The Town is self-insured for its workers' compensation and unemployment compensation activities. Settlements have not exceeded coverage for each of the past three fiscal years. These activities are accounted for in the Town's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

Workers' Compensation

The Town participates in a Retrospective Rating Plan for which the Town employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2013, the amount of the liability for workers' compensation claims totaled \$339,000. Changes in the reported liability since July 1, 2011, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2012.....	\$ 384,000	\$ 91,000	\$ (129,000)	\$ 346,000	\$ 35,000
Fiscal Year 2013.....	346,000	109,000	(116,000)	339,000	34,000

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$13,247,971 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

At December 31, 2012, the System's membership consists of the following:

Active members.....	729
Inactive members.....	127
Disabled members.....	39
Retirees and beneficiaries currently receiving benefits.....	<u>355</u>
Total.....	<u><u>1,250</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years

apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$5,495,131, \$5,085,067, and \$4,712,555, respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases ranging from 7.00% decreasing to 4.75% after 9 years of service for group 1, ranging from 7.00% decreasing to 5.00% after 7 years of service for group 2, and ranging from 8.00% decreasing to 5.25% after 8 years for group 4 employees. The actuarial value of the System's assets is determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an increasing basis. The remaining amortization period at June 30, 2013, was 27 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding by fiscal 2014. The Town's funded rate was 49.7% as of the most recent actuarial valuation.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

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)
01/01/12	\$ 95,692	\$ 192,534	\$ 96,842	50%	\$ 34,436	281%
01/01/10	92,289	167,447	75,158	55%	32,416	232%
01/01/07	99,953	136,899	36,946	73%	30,468	121%
01/01/04	81,431	104,232	22,801	78%	27,551	83%
01/01/01	69,752	86,928	17,176	80%	24,596	70%
01/01/99	59,350	76,915	17,565	77%	21,631	81%

Funding progress is reported based on the actuarial valuation performed by the System. The Town is responsible for approximately 99% of the unfunded liability.

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

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops 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 1973. The Town has reflected \$14.4 million as the estimate of the landfill closure liability at June 30, 2013, in the government-wide financial statements governmental activities.

This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Andover administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance and life insurance for eligible retirees and their spouses through the Town’s group health and life insurance plans, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes a variable portion of the cost of current-year premiums, which varies by plan, for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs.

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund to begin pre-funding its OPEB liabilities. During fiscal year 2013, the Town contributed an additional \$300,000 to pre-fund future OPEB obligations.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 11,423,000
Interest on net OPEB obligation.....	2,683,000
Adjustment to annual required contribution.....	<u>(2,081,000)</u>
Annual OPEB cost (expense).....	12,025,000
Contributions made.....	<u>(5,493,000)</u>
Increase in net OPEB obligation.....	6,532,000
Net OPEB obligation-beginning of year.....	<u>46,656,000</u>
Net OPEB obligation-end of year.....	<u>\$ 53,188,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 12,025,000	46%	\$ 53,188,000
6/30/2012	16,888,000	36%	46,656,000
6/30/2011	15,704,000	37%	35,843,000

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$145.9 million. The Town had funded \$1.1 million, which resulted in a funded ratio of 0.8% and the unfunded actuarial accrued liability for benefits totaled \$144.8 million.

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

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

In the June 30, 2013 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5.75% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical care inflation rate of 8.5% initially, graded to 5% over 7 years. The UAAL is being amortized over a 30-year period, using the level percentage of projected payroll method, on an open basis, with amortization payments increasing at 3.75% per year. The remaining amortization period at June 30, 2013 is 29 years.

NOTE 13 – COMMITMENTS

The Town has contracted with Allied Waste (formerly BFI) for refuse collection and hauling through June 30, 2013. The fiscal 2013 cost to the Town under the Allied contract is approximately \$955,000.

The Town has contracted with Integrated Paper for recycling collection and hauling through June 30, 2013. The fiscal 2013 cost to the Town under the Integrated Paper contract is approximately \$331,000.

The Town has entered into or is planning to enter into contracts totaling approximately \$49.5 million for the construction of the new Bancroft elementary school. The Town has expended approximately \$19.7 million as of June 30, 2013 towards completion of the project.

The Town has entered into or is planning to enter into contracts totaling approximately \$56.4 million for the construction of various water and sewer infrastructure projects. The Town has expended approximately \$43.5 million as of June 30, 2013 to complete the projects.

NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years.

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2015.

- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Actual Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
	Original Budget	Final Budget	Final Budget			
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 110,907,949	\$ 110,907,949	\$ 110,221,667	\$ -	\$ (686,282)	
Tax liens.....	-	-	88,055	-	88,055	
Motor vehicle excise taxes.....	4,500,000	4,500,000	4,745,068	-	245,068	
Hotel/motel tax.....	1,350,000	1,350,000	1,526,835	-	176,835	
Meals tax.....	500,000	500,000	547,235	-	47,235	
Penalties and interest on taxes.....	400,000	400,000	298,550	-	(101,450)	
Licenses and permits.....	1,579,000	1,579,000	2,334,522	-	755,522	
Intergovernmental.....	11,693,133	11,693,133	11,646,534	-	(46,599)	
Departmental and other.....	2,743,975	2,743,975	3,100,973	-	356,998	
Investment income.....	35,000	35,000	88,418	-	53,418	
TOTAL REVENUES.....	133,709,057	133,709,057	134,597,857	-	888,800	
EXPENDITURES:						
Current:						
General government:						
Personal services.....	5,926,908	5,461,908	5,126,918	57,502	277,488	
Other expenses.....	1,928,053	2,099,592	1,884,625	131,962	83,005	
TOTAL.....	7,854,961	7,561,500	7,011,543	189,464	360,493	
Public safety:						
Personal services.....	13,164,753	13,431,653	13,179,356	154,386	97,911	
Other expenses.....	1,536,762	1,586,762	1,300,126	38,656	247,980	
TOTAL.....	14,701,515	15,018,415	14,479,482	193,042	345,891	
Education:						
Personal services.....	52,997,372	52,997,372	52,934,042	-	63,330	
Other expenses.....	14,341,255	14,283,869	13,500,609	718,754	64,506	
TOTAL.....	67,338,627	67,281,241	66,434,651	718,754	127,836	
Municipal services:						
Personal services.....	4,739,026	4,854,147	4,815,092	-	39,055	
Other expenses.....	5,900,567	6,110,513	5,676,397	137,784	296,332	
TOTAL.....	10,639,593	10,964,660	10,491,489	137,784	335,387	
Community services:						
Personal services.....	1,227,365	1,247,465	1,196,612	-	50,853	
Other expenses.....	455,268	477,032	418,221	30,040	28,771	
TOTAL.....	1,682,633	1,724,497	1,614,833	30,040	79,624	

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Amounts Carried Forward To Next Year	Variance To Final Budget
	Original Budget	Final Budget	Actual Amounts		
Library:					
Personal services.....	1,858,689	1,893,689	1,880,660	13,021	8
Other expenses.....	604,100	604,100	586,133	-	17,967
TOTAL.....	<u>2,462,789</u>	<u>2,497,789</u>	<u>2,466,793</u>	<u>13,021</u>	<u>17,975</u>
Pension benefits.....	5,496,244	5,318,244	5,317,870	-	374
Property and liability insurance.....	661,613	719,613	717,613	-	2,000
Employee benefits.....	14,190,500	14,211,500	14,211,500	-	-
State and county charges.....	2,482,440	2,482,440	2,468,820	-	13,620
Debt service:					
Principal.....	5,813,900	5,813,900	5,813,900	-	-
Interest.....	1,926,470	1,926,470	1,877,525	-	48,945
TOTAL.....	<u>7,740,370</u>	<u>7,740,370</u>	<u>7,691,425</u>	<u>-</u>	<u>48,945</u>
TOTAL EXPENDITURES.....	<u>135,251,285</u>	<u>135,520,269</u>	<u>132,906,019</u>	<u>1,282,105</u>	<u>1,332,145</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	<u>(1,542,228)</u>	<u>(1,811,212)</u>	<u>1,691,838</u>	<u>(1,282,105)</u>	<u>2,220,945</u>
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds and notes.....	-	-	1,657,247	-	1,657,247
Transfers in.....	1,662,845	1,662,845	1,659,760	-	(3,085)
Transfers out.....	(2,252,000)	(5,249,500)	(5,249,500)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	<u>(589,155)</u>	<u>(3,586,655)</u>	<u>(1,932,493)</u>	<u>-</u>	<u>1,654,162</u>
NET CHANGE IN FUND BALANCE.....	(2,131,383)	(5,397,867)	(240,655)	(1,282,105)	3,875,107
BUDGETARY FUND BALANCE, Beginning of year.....	8,650,403	8,650,403	8,650,403	-	-
BUDGETARY FUND BALANCE, End of year.....	<u>\$ 6,519,020</u>	<u>\$ 3,252,536</u>	<u>\$ 8,409,748</u>	<u>\$ (1,282,105)</u>	<u>\$ 3,875,107</u>

See notes to required supplementary information.

(Concluded)

Retirement System Schedule of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the Town is one participating employer, about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

ANDOVER CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress
(Dollar Amounts Reported in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 95,692	\$ 192,534	\$ 96,842	50%	\$ 34,436	281%
01/01/10	92,289	167,447	75,158	55%	32,416	232%
01/01/07	99,953	136,899	36,946	73%	30,468	121%
01/01/04	81,431	104,232	22,801	78%	27,551	83%
01/01/01	69,752	86,928	17,176	80%	24,596	70%
01/01/99	59,350	76,915	17,565	77%	21,631	81%
01/01/98	48,768	71,164	22,396	69%	20,700	108%

Schedule of Employer Contributions

Fiscal Year Ended	System Wide			Town of Andover	
	Annual Required Contributions	Actual Contributions Made	Percentage Contributed	Actual Contributions Made	Town Contributions as a Percentage of System Wide Contributions
2013	\$ 5,563,000	\$ 5,563,000	100%	\$ 5,495,131	99%
2012	5,151,000	5,151,000	100%	5,085,067	99%
2011	4,769,310	4,769,310	100%	4,712,555	99%
2010	4,634,088	4,634,088	100%	4,583,113	99%
2009	4,503,175	4,503,175	100%	4,458,594	99%
2008	4,384,052	4,384,052	100%	4,341,568	99%
2007	4,099,897	4,099,897	100%	4,058,898	99%
2006	3,910,205	3,910,205	100%	3,865,238	99%
2005	3,580,864	3,580,864	100%	3,545,055	99%

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2013	\$ 1,101,668	\$ 145,915,338	\$ 144,813,670	0.8%	n/a	n/a
6/30/2011	704,000	215,258,000	214,554,000	0.3%	n/a	n/a
6/30/2009	-	245,108,000	245,108,000	0.0%	80,800,000	303.4%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2013	\$ 11,423,000	\$ 5,493,000	48%
2012	16,523,000	6,075,000	37%
2011	15,439,000	5,879,000	38%
2010	19,029,000	5,548,000	29%
2009	18,051,000	5,363,000	30%

The Town implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2013
Actuarial cost method.....	Projected unit credit
Amortization method.....	Payments increasing at 3.75%
Remaining amortization period.....	30 years open

Actuarial Assumptions:

Discount rate.....	5.75%
Medical/drug cost trend rate.....	8.5% graded to 5.0% over 7 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	941
Current active members.....	<u>944</u>
Total.....	<u><u>1,885</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Town Manager presents an annual budget to the Board, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. A majority vote at Town Meeting has full authority to amend and/or reject the budget or any line item.

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

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. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget authorized approximately \$137.5 million in appropriations and other amounts to be raised. During fiscal year 2013, Town Meeting also approved supplemental appropriations totaling \$3.3 million.

The Municipal Relief Act in accordance with MGL Chapter 44, Section 33B, allows the Board, with the concurrence of the Finance Committee, to transfer appropriations during the last two months of the fiscal year or during the first 15 days of the new fiscal year.

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

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented below:

Net change in fund balance - budgetary basis.....	\$	(240,655)
<u>Perspective difference:</u>		
Activity of the stabilization fund recorded in the general fund for GAAP.....		2,184,475
<u>Basis of accounting differences:</u>		
Net change in recording 60-day receipts.....		(24,331)
Net change in recording tax refunds payable.....		187,000
Recognition of revenue for on-behalf payments.....		13,247,971
Recognition of expenditures for on-behalf payments.....		<u>(13,247,971)</u>
Net change in fund balance - GAAP basis.....	\$	<u>2,106,489</u>

NOTE B – PENSION PLAN

The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$13,247,971 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System.

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. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

At June 30, 2013, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases ranging from 7.00% decreasing to 4.75% after 9 years of service for group 1, ranging from 7.00% decreasing to 5.00% after 7 years of service for group 2, and ranging from 8.00% decreasing to 5.25% after 8 years for group 4 employees. The actuarial value of the System's assets was determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an increasing basis. The remaining amortization period at June 30, 2013, was 27 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding by fiscal 2040. The Town's funded rate was 49.7% as of the last actuarial valuation.

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

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The Town currently finances its other postemployment benefits (OPEB) on a combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is .2%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

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Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Town Grants/Other Revolving Funds – This fund is used to account for the non-school related activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and grant funds received from state and federal governments which are designated for specific programs.

School Grants/Other Revolving Funds – This fund is used to account for the school department's revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and Chapter 71 and grant funds received from state and federal governments which are designated for specific programs.

School Lunch Fund – This fund is used to account for all cafeteria activities and is funded by user charges, federal and state grants and commodities received.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Road/Drainage Projects – This fund is used to account for road and drainage projects other than state funded highway projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Conservation Projects – This fund is used to account for major conservation capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Municipal Buildings – This fund is used to account for major municipal building capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Other Projects – This fund is used to account for smaller capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

Cemetery – This fund is used to account for cemetery contributions and bequests in which the earnings may be expended for cemetery purposes.

Library Trust Funds – This fund is used to account for gifts, bequests and contributions in which the earnings may be expended for purposes specified by the donor in relation to library activities.

Town Welfare/Other Trust Funds – This fund accounts for all non-library and cemetery related contributions and bequests in which the earnings may be expended for purposes specified by the donor in relation to other Town activities.

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2013

	Special Revenue Funds			
	Town Grants/ Other Revolving	School Grants/ Other Revolving	School Lunch	Sub-total
ASSETS				
Cash and cash equivalents.....	\$ 3,610,765	\$ 2,279,149	\$ 423,742	\$ 6,313,656
Investments.....	2,630,516	-	-	2,630,516
Receivables, net of uncollectibles:				
Departmental and other.....	112,666	-	-	112,666
Intergovernmental.....	9,562	1,006,621	-	1,016,183
TOTAL ASSETS.....	\$ 6,363,509	\$ 3,285,770	\$ 423,742	\$ 10,073,021
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 150,668	\$ 8,496	\$ 20,489	\$ 179,653
Accrued payroll.....	52,648	98,805	33,718	185,171
Deferred revenues.....	109,609	-	-	109,609
TOTAL LIABILITIES.....	312,925	107,301	54,207	474,433
FUND BALANCES:				
Nonspendable.....	-	-	-	-
Restricted.....	6,050,584	3,178,469	369,535	9,598,588
TOTAL FUND BALANCES.....	6,050,584	3,178,469	369,535	9,598,588
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 6,363,509	\$ 3,285,770	\$ 423,742	\$ 10,073,021

Capital Project Funds

Road/ Drainage Projects	Conservation	Municipal Buildings	Other	Sub-total
\$ 6,856,956	\$ 118,498	\$ 670,635	\$ 428,531	\$ 8,074,620
-	-	-	-	-
-	-	-	-	-
-	-	-	182,737	182,737
<u>\$ 6,856,956</u>	<u>\$ 118,498</u>	<u>\$ 670,635</u>	<u>\$ 611,268</u>	<u>\$ 8,257,357</u>
\$ 91,581	\$ 763	\$ 150	\$ -	\$ 92,494
3,694	-	-	-	3,694
-	-	-	-	-
<u>95,275</u>	<u>763</u>	<u>150</u>	<u>-</u>	<u>96,188</u>
-	-	-	-	-
<u>6,761,681</u>	<u>117,735</u>	<u>670,485</u>	<u>611,268</u>	<u>8,161,169</u>
<u>6,761,681</u>	<u>117,735</u>	<u>670,485</u>	<u>611,268</u>	<u>8,161,169</u>
<u>\$ 6,856,956</u>	<u>\$ 118,498</u>	<u>\$ 670,635</u>	<u>\$ 611,268</u>	<u>\$ 8,257,357</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2013

ASSETS	<i>Permanent Funds</i>				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
Cash and cash equivalents.....	\$ 1,081,139	\$ 75,102	\$ 668,781	\$ 1,825,022	\$ 16,213,298
Investments.....	-	-	-	-	2,630,516
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	-	-	112,666
Intergovernmental.....	-	-	-	-	1,198,920
TOTAL ASSETS.....	\$ 1,081,139	\$ 75,102	\$ 668,781	\$ 1,825,022	\$ 20,155,400
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ -	\$ -	\$ -	\$ -	\$ 272,147
Accrued payroll.....	-	-	-	-	188,865
Deferred revenues.....	-	-	-	-	109,609
TOTAL LIABILITIES.....	-	-	-	-	570,621
FUND BALANCES:					
Nonspendable.....	886,857	5,000	386,629	1,278,486	1,278,486
Restricted.....	194,282	70,102	282,152	546,536	18,306,293
TOTAL FUND BALANCES.....	1,081,139	75,102	668,781	1,825,022	19,584,779
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,081,139	\$ 75,102	\$ 668,781	\$ 1,825,022	\$ 20,155,400

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NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FISCAL YEAR ENDED JUNE 30, 2013

	Special Revenue Funds			
	Town Grants/ Other Revolving	School Grants/ Other Revolving	School Lunch	Sub-total
REVENUES:				
Charges for services.....	\$ 126,718	\$ -	\$ -	\$ 126,718
Fees.....	381,835	-	-	381,835
Fines and forfeitures.....	1,100	-	-	1,100
Intergovernmental.....	537,117	4,559,205	328,318	5,424,640
Departmental and other.....	3,108,756	2,498,147	1,830,893	7,437,796
Contributions.....	461,166	4,295	-	465,461
Investment income.....	(16,100)	-	-	(16,100)
TOTAL REVENUES.....	4,600,592	7,061,647	2,159,211	13,821,450
EXPENDITURES:				
Current:				
General government.....	499,397	-	-	499,397
Public safety.....	1,480,840	761	-	1,481,601
Education.....	37,518	6,639,552	2,230,964	8,908,034
Municipal services.....	142,946	-	-	142,946
Community services.....	1,356,873	-	-	1,356,873
Library.....	48,343	-	-	48,343
Capital outlay.....	-	-	-	-
TOTAL EXPENDITURES.....	3,565,917	6,640,313	2,230,964	12,437,194
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	1,034,675	421,334	(71,753)	1,384,256
OTHER FINANCING SOURCES (USES):				
Issuance of bonds and notes.....	-	-	-	-
Transfers in.....	-	-	-	-
Transfers out.....	(337,300)	-	-	(337,300)
TOTAL OTHER FINANCING SOURCES (USES)...	(337,300)	-	-	(337,300)
NET CHANGE IN FUND BALANCES.....	697,375	421,334	(71,753)	1,046,956
FUND BALANCES AT BEGINNING OF YEAR.....	5,353,209	2,757,135	441,288	8,551,632
FUND BALANCES AT END OF YEAR.....	\$ 6,050,584	\$ 3,178,469	\$ 369,535	\$ 9,598,588

Capital Project Funds

Road/ Drainage Projects	Conservation	Municipal Buildings	Other	Sub-total
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,791,837	49,330	114,736	570,980	5,526,883
4,791,837	49,330	114,736	570,980	5,526,883
(4,791,837)	(49,330)	(114,736)	(570,980)	(5,526,883)
5,855,000	-	200,000	500,000	6,555,000
2,881,000	-	-	-	2,881,000
-	-	-	-	-
8,736,000	-	200,000	500,000	9,436,000
3,944,163	(49,330)	85,264	(70,980)	3,909,117
2,817,518	167,065	585,221	682,248	4,252,052
\$ 6,761,681	\$ 117,735	\$ 670,485	\$ 611,268	\$ 8,161,169

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2013

	<i>Permanent Funds</i>				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ 126,718
Fees and rentals.....	-	-	-	-	381,835
Fines and forfeitures.....	-	-	-	-	1,100
Intergovernmental.....	-	-	-	-	5,424,640
Departmental and other.....	-	-	-	-	7,437,796
Contributions.....	33,608	-	558	34,166	499,627
Investment income.....	7,251	2,097	18,258	27,606	11,506
TOTAL REVENUES.....	40,859	2,097	18,816	61,772	13,883,222
EXPENDITURES:					
Current:					
General government.....	-	-	-	-	499,397
Public safety.....	-	-	-	-	1,481,601
Education.....	-	-	-	-	8,908,034
Public works.....	3,030	-	-	3,030	145,976
Human services.....	-	-	1,267	1,267	1,358,140
Library.....	30	-	17,416	17,446	65,789
Capital outlay.....	-	-	-	-	5,526,883
TOTAL EXPENDITURES.....	3,060	-	18,683	21,743	17,985,820
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	37,799	2,097	133	40,029	(4,102,598)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	-	6,555,000
Transfers in.....	-	-	-	-	2,881,000
Transfers out.....	(6,000)	-	-	(6,000)	(343,300)
TOTAL OTHER FINANCING SOURCES (USES)...	(6,000)	-	-	(6,000)	9,092,700
NET CHANGE IN FUND BALANCES.....	31,799	2,097	133	34,029	4,990,102
FUND BALANCES AT BEGINNING OF YEAR.....	1,049,340	73,005	668,648	1,790,993	14,594,677
FUND BALANCES AT END OF YEAR.....	\$ 1,081,139	\$ 75,102	\$ 668,781	\$ 1,825,022	\$ 19,584,779

(Concluded)

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Insurance Fund – This fund is used to account for the accumulation of costs associated with property and liability insurance.

Unemployment Compensation Fund – This fund is used to account for the accumulation of costs, and employee contributions associated with unemployment compensation.

Health Insurance Fund – This fund is used to account for the accumulation of costs, and employer and employee contributions associated with health insurance.

Worker's Compensation Fund – This fund is used to account for the accumulation of costs, and employer contributions associated with worker's compensation.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Insurance</u>	<u>Unemployment Compensation</u>	<u>Health Insurance</u>	<u>Worker's Compensation</u>	<u>Total Internal Service Funds</u>
ASSETS					
CURRENT:					
Cash and cash equivalents.....	\$ 209,365	\$ 15,112	\$ 1,161,001	\$ 74,558	\$ 1,460,036
LIABILITIES					
CURRENT:					
Warrants payable.....	-	-	9,800	-	9,800
Workers' compensation.....	-	-	-	34,000	34,000
Total current liabilities.....	-	-	9,800	34,000	43,800
NONCURRENT:					
Workers' compensation.....	-	-	-	305,000	305,000
TOTAL LIABILITIES.....	-	-	9,800	339,000	348,800
NET POSITION					
Unrestricted.....	\$ 209,365	\$ 15,112	\$ 1,151,201	\$ (264,442)	\$ 1,111,236

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
OPERATING REVENUES:					
Employee contributions	\$ -	\$ -	\$ 4,006,835	\$ -	\$ 4,006,835
Employer contributions	-	121,000	13,987,694	61,899	14,170,593
Intergovernmental.....	-	-	495,955	-	495,955
TOTAL OPERATING REVENUES	-	121,000	18,490,484	61,899	18,673,383
OPERATING EXPENSES:					
Employee benefits	-	148,761	18,058,691	109,173	18,316,625
Insurance.....	16,624	-	-	-	16,624
TOTAL OPERATING EXPENSES	16,624	148,761	18,058,691	109,173	18,333,249
OPERATING INCOME (LOSS).....	(16,624)	(27,761)	431,793	(47,274)	340,134
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	475	109	1,203	-	1,787
CHANGE IN NET POSITION.....	(16,149)	(27,652)	432,996	(47,274)	341,921
NET POSITION AT BEGINNING OF YEAR.....	225,514	42,764	718,205	(217,168)	769,315
NET POSITION AT END OF YEAR.....	\$ 209,365	\$ 15,112	\$ 1,151,201	\$ (264,442)	\$ 1,111,236

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ -	\$ -	\$ 4,006,835	\$ -	\$ 4,006,835
Receipts from interfund services provided.....	-	121,000	13,987,694	61,899	14,170,593
Receipts from other governments.....	-	-	495,955	-	495,955
Payments to vendors.....	(16,624)	-	-	-	(16,624)
Payments to employees.....	-	-	(85,815)	-	(85,815)
Payments for interfund services used.....	(500)	(148,761)	(17,967,076)	(116,173)	(18,232,510)
NET CASH FROM OPERATING ACTIVITIES.....	(17,124)	(27,761)	437,593	(54,274)	338,434
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income.....	475	109	1,203	-	1,787
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(16,649)	(27,652)	438,796	(54,274)	340,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	226,014	42,764	722,205	128,832	1,119,815
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 209,365	\$ 15,112	\$ 1,161,001	\$ 74,558	\$ 1,460,036
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (16,624)	\$ (27,761)	\$ 431,793	\$ (47,274)	\$ 340,134
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Changes in assets and liabilities:					
Warrants payable.....	(500)	-	5,800	-	5,300
Workers' compensation.....	-	-	-	(7,000)	(7,000)
Total adjustments.....	(500)	-	5,800	(7,000)	(1,700)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (17,124)	\$ (27,761)	\$ 437,593	\$ (54,274)	\$ 338,434

Agency Fund

This fund is primarily used to account for contactors security deposits, local church deposits, and receipts and disbursements on behalf of the Merrimack Valley Library Consortium.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2013

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 855,681	\$ 1,250,609	\$ (1,345,068)	\$ 761,222
LIABILITIES				
Guaranteed deposits.....	\$ 61,405	\$ 1,531	\$ -	\$ 62,936
Other deposits.....	11,832	347	(252)	11,927
Merrimack Valley Library Consortium.....	156,963	150,480	(250,000)	57,443
Student Activities.....	625,481	1,098,251	(1,094,816)	628,916
TOTAL LIABILITIES.....	\$ 855,681	\$ 1,250,609	\$ (1,345,068)	\$ 761,222

Statistical Section



High Plain Road Reconstruction

Statistical Section

This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Financial Trends

- These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

Revenue Capacity

- These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.

Debt Capacity

- These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

Demographic and Economic Information

- These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.

Operating Information

- These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Net Position By Component

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets.....	\$ 89,679,889	\$ 91,145,822	\$ 89,418,470	\$ 91,189,027	\$ 91,685,536	\$ 89,103,313	\$ 93,007,654	\$ 93,315,362	\$ 97,503,961	\$ 104,403,021
Restricted.....	3,638,030	4,426,387	4,032,029	4,610,472	5,039,470	3,395,370	3,796,181	3,976,293	6,194,838	9,250,406
Unrestricted.....	12,351,114	9,873,633	12,307,988	10,474,688	666,172	(11,182,850)	(25,064,804)	(33,596,579)	(42,544,729)	(46,622,291)
Total governmental activities net position.....	\$ 105,669,033	\$ 105,445,842	\$ 105,758,487	\$ 106,274,187	\$ 97,391,178	\$ 81,315,833	\$ 71,739,031	\$ 63,695,076	\$ 61,154,070	\$ 67,031,136
Business-type activities										
Net investment in capital assets.....	46,387,305	46,027,798	44,383,954	45,396,161	46,338,405	47,347,751	47,583,170	47,534,459	46,353,252	45,822,689
Unrestricted.....	10,528,648	13,264,116	15,604,638	14,824,192	13,060,062	20,682,749	18,915,881	18,241,146	18,385,626	18,388,810
Total business-type activities net position.....	\$ 56,915,953	\$ 59,291,914	\$ 59,988,592	\$ 60,220,353	\$ 59,398,467	\$ 68,030,500	\$ 66,499,051	\$ 65,775,605	\$ 64,738,878	\$ 64,211,499
Primary government										
Net investment in capital assets.....	136,067,194	137,173,620	133,802,424	136,585,188	138,023,941	136,451,064	140,590,824	140,849,821	143,857,213	150,225,710
Restricted.....	3,638,030	4,426,387	4,032,029	4,610,472	5,039,470	3,395,370	3,796,181	3,976,293	6,194,838	9,250,406
Unrestricted.....	22,879,762	23,137,749	27,912,626	25,298,880	13,726,234	9,499,899	(6,148,923)	(15,355,433)	(24,159,103)	(28,233,481)
Total primary government net position.....	\$ 162,584,986	\$ 164,737,756	\$ 165,747,079	\$ 166,494,540	\$ 156,789,645	\$ 149,346,333	\$ 138,238,082	\$ 129,470,681	\$ 125,892,948	\$ 131,242,635

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government.....	\$ 6,384,815	\$ 6,116,927	\$ 6,370,915	\$ 7,135,773	\$ 7,001,802	\$ 7,435,711	\$ 7,853,717	\$ 7,849,705	\$ 9,579,841	\$ 9,997,575
Plant and facilities.....	6,595,195	5,663,229	5,971,059	6,312,238	5,369,831	5,647,761	5,610,304	5,868,634	6,301,667	** -
Public safety.....	16,675,121	17,246,901	17,782,178	17,692,134	21,417,994	21,464,611	20,464,627	21,454,951	21,019,992	21,349,177
Education.....	67,227,226	72,624,199	79,034,278	85,198,802	89,739,079	109,409,021	109,285,301	109,991,085	110,530,908	111,484,537
Public works.....	7,768,193	9,038,654	7,405,556	9,257,382	16,215,311	7,993,148	7,086,407	8,104,996	6,671,929	** -
Municipal services.....	-	-	-	-	-	-	-	-	-	** 14,475,054
Community services.....	2,797,537	2,806,626	2,833,581	3,082,209	3,196,831	3,401,157	3,410,882	3,473,959	3,547,165	3,497,572
Library.....	3,447,297	3,326,096	3,433,876	3,748,315	3,969,982	4,230,163	4,158,325	4,004,711	3,330,995	3,291,536
Interest.....	2,953,651	3,028,040	2,569,615	3,079,688	2,610,346	2,157,682	1,692,345	1,733,882	1,813,401	2,180,097
Total governmental activities expenses.....	113,849,035	119,850,672	125,401,058	135,506,541	149,521,176	161,739,254	159,561,908	162,481,923	162,795,898	166,275,548
Business-type activities:										
Water.....	5,180,484	5,279,568	5,522,811	5,837,589	6,152,545	6,533,573	5,423,483	6,143,129	6,459,218	6,363,699
Sewer.....	3,114,483	3,418,402	3,920,303	3,698,176	4,065,119	4,273,853	4,662,645	4,438,234	4,157,552	4,173,881
Total business-type activities expenses.....	8,294,967	8,697,970	9,443,114	9,535,765	10,217,664	10,807,426	10,086,128	10,581,363	10,616,770	10,537,580
Total primary government expenses.....	\$ 122,144,002	\$ 128,548,642	\$ 134,844,172	\$ 145,042,306	\$ 159,738,840	\$ 172,546,680	\$ 169,648,036	\$ 173,063,286	\$ 173,412,668	\$ 176,813,128
Program Revenues										
Governmental activities:										
Public safety charges for services.....	\$ 3,601,991	\$ 5,047,096	\$ 4,173,141	\$ 3,880,398	\$ 4,326,730	\$ 3,790,779	\$ 3,755,724	\$ 3,649,023	\$ 4,179,923	\$ 5,376,825
Education charges for services.....	2,631,861	3,221,619	3,303,391	3,556,254	3,891,867	3,869,698	4,159,428	4,447,671	4,406,316	4,533,644
Other charges for services.....	2,232,896	2,217,961	2,459,937	2,757,509	3,275,730	2,992,813	3,458,043	2,980,246	3,263,775	3,017,848
Education operating grants and contributions.....	14,287,070	16,723,671	16,421,600	18,485,493	20,831,731	23,010,714	24,013,602	24,783,904	25,611,406	26,139,620
Other operating grants and contributions.....	1,701,550	1,592,768	2,054,108	2,386,728	2,042,371	2,822,588	2,024,443	1,759,998	1,607,599	1,191,156
General government capital grant and contributions.....	17,800,725	211,662	63,731	12,105	-	-	-	259,600	-	-
Municipal services capital grant and contributions.....	1,022,245	601,504	826,869	2,579,033	776,474	1,033,675	1,062,707	1,378,068	-	1,553,595
Education capital grant and contributions.....	-	-	-	-	-	-	-	-	-	7,690,079
Other capital grant and contributions.....	-	-	-	-	-	10,992	-	-	2,310,588	458,700
Total governmental activities program revenues.....	43,278,338	29,616,281	29,302,777	33,657,520	35,144,903	37,531,259	38,473,947	39,258,510	41,379,607	49,961,467
Business-type activities:										
Water charges for services.....	5,466,703	5,948,163	6,135,750	6,026,114	6,624,742	6,557,656	6,107,981	7,539,658	6,974,207	7,244,362
Sewer charges for services.....	3,125,887	3,287,453	3,200,763	3,900,287	4,274,584	4,048,056	4,090,182	3,995,288	4,236,585	4,241,515
Other capital grant and contributions.....	1,436,501	3,270,890	2,706,471	1,838,804	158,190	10,798,240	229,534	41,759	-	42,339
Total business-type activities program revenues.....	10,029,091	12,506,506	12,042,984	11,765,205	11,057,516	21,403,952	10,427,697	11,576,705	11,210,792	11,528,216
Total primary government program revenues.....	\$ 53,307,429	\$ 42,122,787	\$ 41,345,761	\$ 45,422,725	\$ 46,202,419	\$ 58,935,211	\$ 48,901,644	\$ 50,835,215	\$ 52,590,399	\$ 61,489,683
Net (Expense)/Program Revenue										
Governmental activities.....	\$ (70,570,697)	\$ (90,234,391)	\$ (96,098,281)	\$ (101,849,021)	\$ (114,376,273)	\$ (124,207,995)	\$ (121,087,961)	\$ (123,223,413)	\$ (121,416,291)	\$ (116,314,081)
Business-type activities.....	1,734,124	3,808,536	2,599,870	2,229,440	839,852	10,596,526	341,569	995,342	594,022	990,636
Total primary government net (expense)/program revenue.....	\$ (68,836,573)	\$ (86,425,855)	\$ (93,498,411)	\$ (99,619,581)	\$ (113,536,421)	\$ (113,611,469)	\$ (120,746,392)	\$ (122,228,071)	\$ (120,822,269)	\$ (115,323,445)

(continued)

Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Revenues and other Changes in Net Position										
Governmental activities:										
Real estate and personal property taxes,										
net of tax refunds payable.....	\$ 78,018,623	\$ 80,128,940	\$ 85,467,543	\$ 89,517,870	\$ 93,240,977	\$ 96,597,993	\$ 100,368,252	\$ 103,594,344	\$ 107,658,022	\$ 110,652,457
Tax liens.....	156,432	169,769	137,894	160,701	188,869	316,513	416,598	352,839	231,426	420,138
Motor vehicle excise taxes.....	4,449,959	4,695,077	4,737,214	4,665,464	4,704,891	4,407,674	4,510,747	4,722,659	4,530,897	4,903,920
Hotel/motel tax.....	709,595	777,164	702,732	1,040,438	897,765	860,090	962,298	1,288,661	1,353,137	1,526,835
Meals tax.....	-	-	-	-	-	-	136,239	478,403	517,177	547,235
Penalties and interest on taxes.....	265,747	335,008	279,901	314,296	410,491	303,184	286,866	409,888	416,902	298,550
Grants and contributions not restricted to										
specific programs.....	1,704,378	1,857,933	2,016,691	2,558,873	2,558,964	2,502,913	2,083,892	2,070,906	2,005,649	2,099,507
Unrestricted investment income.....	369,542	493,590	955,407	1,603,144	1,434,652	1,005,941	550,684	315,873	273,240	74,364
Miscellaneous.....	400,871	75,167	53,440	344,265	328,707	144,381	-	217,576	249,261	139,881
Transfers.....	1,125,049	1,478,552	2,060,104	2,159,670	1,727,948	1,993,961	-	1,728,309	1,639,574	1,528,260
Total governmental activities.....	<u>87,200,196</u>	<u>90,011,200</u>	<u>96,410,926</u>	<u>102,364,721</u>	<u>105,493,264</u>	<u>108,132,650</u>	<u>109,315,576</u>	<u>115,179,458</u>	<u>118,875,285</u>	<u>122,191,147</u>
Business-type activities:										
Unrestricted investment income.....	54,871	45,977	156,912	161,991	66,210	29,468	14,785	9,521	8,825	10,245
Transfers.....	(1,125,049)	(1,478,552)	(2,060,104)	(2,159,670)	(1,727,948)	(1,993,961)	-	(1,728,309)	(1,639,574)	(1,528,260)
Total business-type activities.....	<u>(1,070,178)</u>	<u>(1,432,575)</u>	<u>(1,903,192)</u>	<u>(1,997,679)</u>	<u>(1,661,738)</u>	<u>(1,964,493)</u>	<u>14,785</u>	<u>(1,718,788)</u>	<u>(1,630,749)</u>	<u>(1,518,015)</u>
Total primary government general revenues and other changes in net position.....	<u>\$ 86,130,018</u>	<u>\$ 88,578,625</u>	<u>\$ 94,507,734</u>	<u>\$ 100,367,042</u>	<u>\$ 103,831,526</u>	<u>\$ 106,168,157</u>	<u>\$ 109,330,361</u>	<u>\$ 113,460,670</u>	<u>\$ 117,244,536</u>	<u>\$ 120,673,132</u>
Changes in Net Position										
Governmental activities.....	\$ 16,629,499	\$ (223,191)	\$ 312,645	\$ 515,700	\$ (8,883,009)	\$ (16,075,345)	\$ (11,772,385)	\$ (8,043,955)	\$ (2,541,006)	\$ 5,877,066
Business-type activities.....	663,946	2,375,961	696,678	231,761	(821,886)	8,632,033	356,354	(723,446)	(1,036,727)	(527,379)
Total primary government changes in net position.....	<u>\$ 17,293,445</u>	<u>\$ 2,152,770</u>	<u>\$ 1,009,323</u>	<u>\$ 747,461</u>	<u>\$ (9,704,895)</u>	<u>\$ (7,443,312)</u>	<u>\$ (11,416,031)</u>	<u>\$ (8,767,401)</u>	<u>\$ (3,577,733)</u>	<u>\$ 5,349,687</u>

** In fiscal 2013, the Town consolidated its plant and facilities and public works department's forming a new municipal services functional line-item.

(concluded)

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved.....	\$ 2,278,232	\$ 1,436,861	\$ 1,860,571	\$ 2,694,727	\$ 1,370,990	\$ 491,022	\$ 1,208,156	\$ -	\$ -	\$ -
Unreserved.....	8,500,140	7,747,231	7,529,898	4,549,236	3,691,825	3,015,527	3,250,042	-	-	-
Restricted.....	-	-	-	-	-	-	-	-	-	1,092,228
Committed.....	-	-	-	-	-	-	-	13,999	13,999	100,734
Assigned.....	-	-	-	-	-	-	-	817,053	2,197,122	1,181,371
Unassigned.....	-	-	-	-	-	-	-	8,106,788	10,772,493	12,715,770
Total general fund.....	\$ 10,778,372	\$ 9,184,092	\$ 9,390,469	\$ 7,243,963	\$ 5,062,815	\$ 3,506,549	\$ 4,458,198	\$ 8,937,840	\$ 12,983,614	\$ 15,090,103
All Other Governmental Funds										
Reserved.....	\$ 692,942	\$ 1,246,997	\$ 1,268,238	\$ 1,261,498	\$ 1,267,370	\$ 1,265,156	\$ 1,274,207	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds.....	5,415,564	5,864,877	6,171,737	9,068,114	9,627,901	9,586,198	10,747,094	-	-	-
Capital projects funds.....	3,636,212	3,519,167	1,747,126	1,933,994	1,323,779	(996,668)	226,609	-	-	-
Permanent funds.....	413,250	210,462	363,604	434,628	440,998	423,353	497,686	-	-	-
Nonspendable.....	-	-	-	-	-	-	-	1,259,811	1,274,750	1,278,486
Restricted.....	-	-	-	-	-	-	-	8,296,921	13,319,927	19,275,015
Unassigned.....	-	-	-	-	-	-	-	-	(2,174,741)	-
Total all other governmental funds.....	\$ 10,157,968	\$ 10,841,503	\$ 9,550,705	\$ 12,698,234	\$ 12,660,048	\$ 10,278,039	\$ 12,745,596	\$ 9,556,732	\$ 12,419,936	\$ 20,553,501

The Town implemented GASB 54 in fiscal year 2011, fund balances prior to fiscal year 2011 have been reported in the pre-GASB 54 format.

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

Fiscal Year

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 77,761,654	\$ 80,108,798	\$ 85,233,515	\$ 89,296,522	\$ 93,215,670	\$ 96,792,126	\$ 100,472,493	\$ 103,357,190	\$ 107,820,244	\$ 110,384,336
Motor vehicle and other excise taxes.....	5,074,722	5,430,809	5,714,365	4,563,040	5,719,957	5,379,998	5,435,155	5,877,675	5,824,833	4,745,068
Intergovernmental.....	19,645,202	36,257,799	26,111,912	25,535,077	27,409,880	29,885,449	29,755,486	30,178,437	33,649,963	36,439,032
Departmental and other.....	9,358,532	11,228,315	10,075,153	12,333,309	12,437,475	11,448,429	12,460,238	13,073,732	14,524,170	16,343,246
Interest income.....	466,366	437,745	931,895	1,660,138	1,501,807	1,048,718	660,607	350,374	306,101	52,399
Total Revenue.....	112,306,476	133,463,466	128,066,840	133,388,086	140,284,789	144,554,720	148,783,979	152,837,408	162,125,311	167,964,081
Expenditures:										
General government.....	4,909,348	4,730,422	4,769,168	5,220,512	5,359,619	5,511,347	5,620,278	5,467,389	7,078,229	7,582,640
Plant and facilities.....	5,869,539	4,608,092	4,222,181	4,431,588	4,417,766	4,417,257	4,323,782	4,558,237	5,029,583	**
Public safety.....	13,515,766	13,597,144	13,682,564	13,571,517	16,457,065	16,121,617	15,013,636	15,740,379	15,373,742	15,961,083
Education.....	51,455,597	54,347,628	58,172,138	62,124,609	65,822,095	69,204,520	69,878,266	72,239,103	71,201,775	75,342,685
Public works.....	6,966,509	6,856,259	4,812,153	6,582,339	6,974,691	7,392,938	6,202,273	6,868,235	6,711,114	**
Municipal services.....	-	-	-	-	-	-	-	-	-	**
Community services.....	2,305,595	2,186,935	2,258,001	2,525,592	2,659,098	2,714,309	2,726,573	2,767,944	2,874,439	2,972,973
Library.....	2,553,941	2,431,694	2,547,324	2,674,266	2,697,413	2,729,703	2,659,866	2,656,682	2,547,398	2,532,582
Pension benefits.....	9,537,132	10,594,568	11,774,280	12,896,971	13,818,706	14,999,567	15,577,594	16,231,461	17,504,035	18,565,841
Property and liability insurance.....	795,879	834,889	744,326	762,947	657,483	562,014	485,701	734,996	827,013	717,613
Employee benefits.....	7,625,000	8,732,646	9,901,817	10,521,298	11,451,717	12,023,030	13,438,023	15,177,469	15,134,416	14,211,500
Claims and judgments.....	-	-	-	-	-	264,966	-	-	-	-
State and county charges.....	1,370,609	1,599,527	1,982,311	2,514,120	2,852,501	2,871,728	3,072,718	2,860,658	2,433,163	2,468,820
Capital outlay.....	6,059,724	5,275,759	6,707,917	5,210,089	7,856,215	7,547,507	5,717,723	7,213,849	7,729,883	22,004,956
Debt service:										
Principal.....	5,728,420	20,744,107	9,436,934	5,833,841	6,035,287	6,306,423	6,465,718	5,865,696	6,194,000	5,813,900
Interest.....	2,987,294	2,957,220	2,408,251	2,920,044	2,472,415	2,015,030	1,435,531	1,642,841	1,847,422	1,871,364
Total Expenditures.....	121,680,353	139,496,890	133,419,365	137,789,733	149,532,071	154,681,956	152,617,682	160,024,939	162,486,212	181,530,073
Excess of revenues over (under) expenditures.....	(9,373,877)	(6,033,424)	(5,352,525)	(4,401,647)	(9,247,282)	(10,127,236)	(3,833,703)	(7,187,531)	(360,901)	(13,565,992)
Other Financing Sources (Uses)										
Issuance of bonds and notes.....	3,717,000	3,500,000	2,208,000	3,243,000	5,300,000	4,195,000	5,566,000	6,750,000	5,366,000	20,555,000
Issuance of refunding bonds.....	-	7,140,205	-	-	-	-	7,936,000	-	4,564,700	3,423,300
Premium from issuance of bonds.....	-	79,123	-	-	-	-	-	-	239,602	1,657,247
Premium from issuance of refunding bonds.....	-	158,596	-	-	-	-	892,842	-	446,698	599,483
Payments to refunded bond escrow agent.....	-	(7,233,797)	-	-	-	-	(8,951,608)	-	(4,986,695)	(3,957,244)
Transfers in.....	2,011,841	4,131,313	6,794,187	6,779,004	5,465,620	4,963,045	3,737,067	3,711,992	3,242,238	4,889,060
Transfers out.....	(886,792)	(2,652,761)	(4,734,083)	(4,619,334)	(3,737,672)	(2,969,084)	(1,927,392)	(1,983,683)	(1,602,664)	(3,360,800)
Total other financing sources (uses).....	4,842,049	5,122,679	4,268,104	5,402,670	7,027,948	6,188,961	7,252,909	8,478,309	7,269,879	23,806,046
Net change in fund balance.....	\$ (4,531,828)	\$ (910,745)	\$ (1,084,421)	\$ 1,001,023	\$ (2,219,334)	\$ (3,938,275)	\$ 3,419,206	\$ 1,290,778	\$ 6,908,978	\$ 10,240,054
Debt service as a percentage of noncapital expenditures.....	7.54%	7.27% (a)	6.46% (a)	6.52%	6.01%	5.68%	5.38%	4.94%	5.28%	4.84%

Notes:

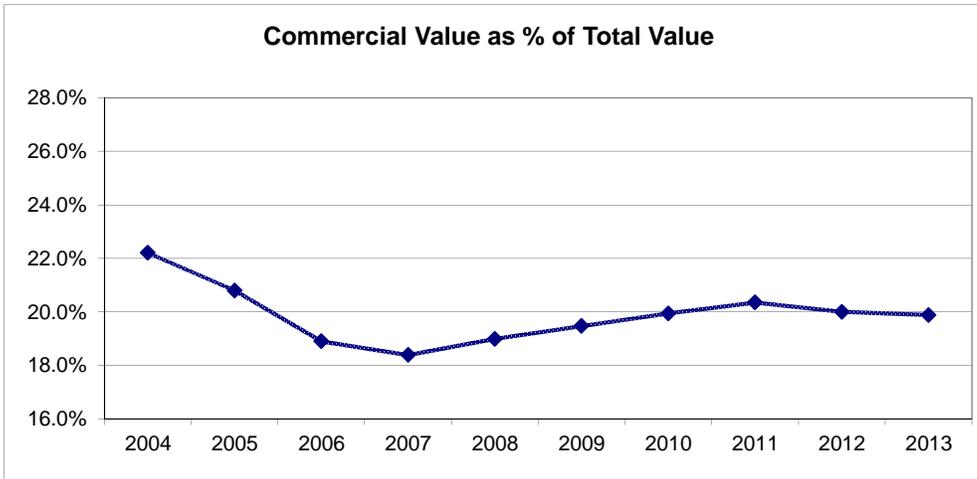
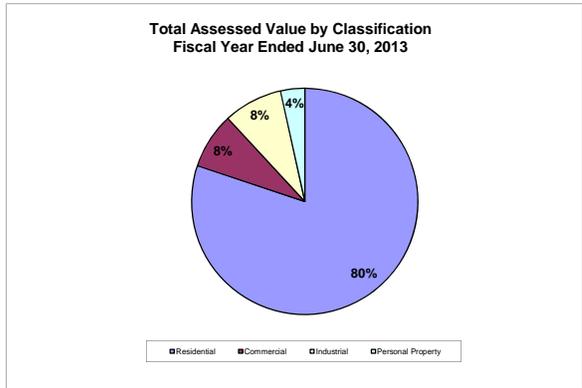
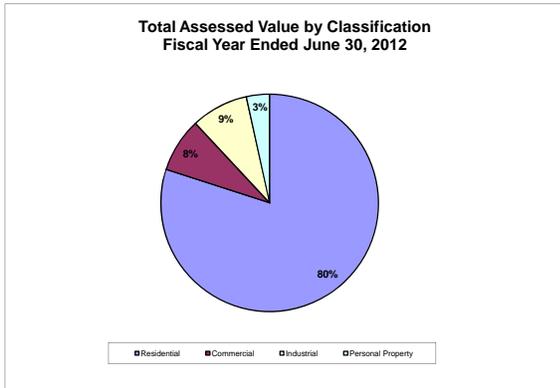
(a) - The FY05 and FY06 %'s have been adjusted to eliminate the effect of state school construction capital grants totaling \$15 million and \$3.8 million, respectively to pay down \$18.8 million in debt for both years.

** In fiscal 2013, the Town consolidated its plant and facilities and public works department's forming a new municipal services functional line-item.

Assessed Value and Actual Value of Taxable Property by Classification and Tax Rates

Last Ten Fiscal Years

Fiscal Year	Assessed and Actual Values and Tax Rates								
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total Town Value
2004	\$ 4,755,952,886	\$ 11.47	\$ 586,983,115	\$ 663,066,600	\$ 107,565,301	\$ 1,357,615,016	\$ 18.13	\$ 12.95	\$ 6,113,567,902
2005	\$ 5,029,579,646	\$ 11.51	\$ 575,889,705	\$ 635,749,200	\$ 109,324,908	\$ 1,320,963,813	\$ 18.00	\$ 12.86	\$ 6,350,543,459
2006 (1)	\$ 5,519,162,801	\$ 11.40	\$ 556,557,746	\$ 635,623,100	\$ 94,200,625	\$ 1,286,381,471	\$ 17.95	\$ 12.64	\$ 6,805,544,272
2007	\$ 5,868,699,641	\$ 11.25	\$ 582,821,925	\$ 640,188,000	\$ 99,325,718	\$ 1,322,335,643	\$ 18.33	\$ 12.55	\$ 7,191,035,284
2008	\$ 5,815,988,951	\$ 11.69	\$ 585,151,793	\$ 642,310,600	\$ 136,301,731	\$ 1,363,764,124	\$ 19.13	\$ 13.10	\$ 7,179,753,075
2009 (1)	\$ 5,765,913,581	\$ 12.16	\$ 583,679,742	\$ 649,552,900	\$ 161,324,140	\$ 1,394,556,782	\$ 19.98	\$ 13.68	\$ 7,160,470,363
2010	\$ 5,473,846,761	\$ 13.19	\$ 566,418,366	\$ 624,853,500	\$ 172,538,617	\$ 1,363,810,483	\$ 21.33	\$ 14.81	\$ 6,837,657,244
2011	\$ 5,269,717,961	\$ 14.12	\$ 552,946,894	\$ 592,561,900	\$ 201,324,807	\$ 1,346,833,601	\$ 22.46	\$ 15.82	\$ 6,616,551,562
2012 (1)	\$ 5,438,632,321	\$ 14.15	\$ 547,695,778	\$ 578,692,200	\$ 233,484,947	\$ 1,359,872,925	\$ 23.54	\$ 16.03	\$ 6,798,505,246
2013	\$ 5,450,304,845	\$ 14.51	\$ 544,010,554	\$ 574,064,300	\$ 234,340,227	\$ 1,352,415,081	\$ 24.26	\$ 16.45	\$ 6,802,719,926



(1) Revaluation year.
 Source: Assessor's Department, Town of Andover
 All property in the Commonwealth of Massachusetts is assessed at 100% of fair cash value.

Note: Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the Town. The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to an exception for property added to the tax rolls and for certain substantial valuation increases other than as part of a general revaluation. The secondary limit may be exceeded in any year by a majority vote of the voters, however it cannot exceed the primary limitation.

Principal Taxpayers

Current Year and Nine Years Ago

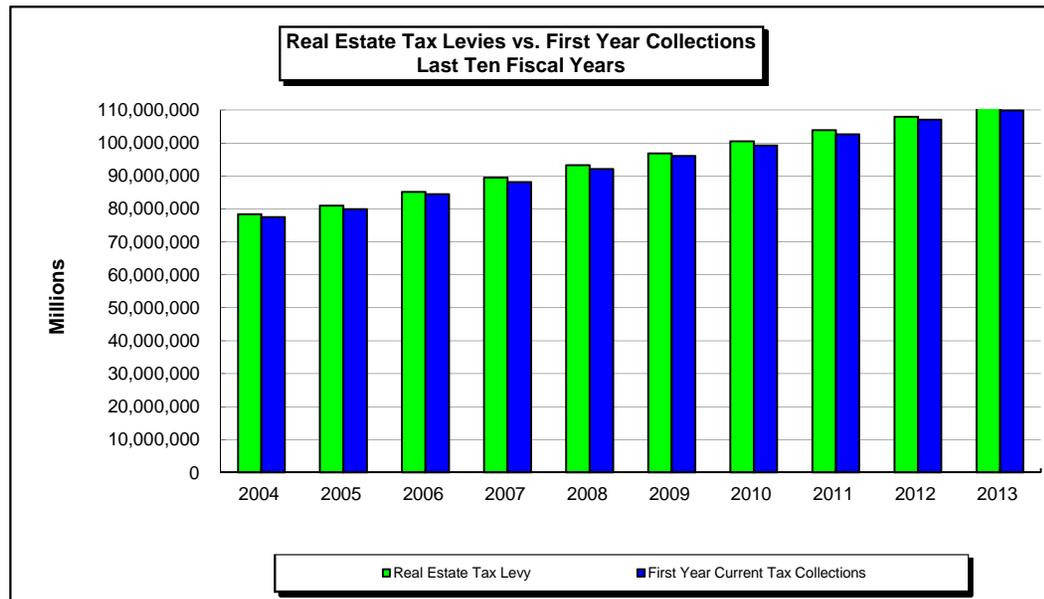
Name	Property Type	2013			2004		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Wyeth Genetics	Industrial	\$ 79,570,270	1	1.17%	\$ 100,429,515	1	1.64%
Transwestern Brickstone Square LLC (Andover Mills)	Commercial	\$ 71,359,930	2	1.05%	\$ 80,145,300	2	1.31%
Eisai Research Institute	Commercial	\$ 67,692,890	3	1.00%	\$ 34,885,827	9	0.57%
Raytheon	Industrial/Residential	\$ 60,440,750	4	0.89%	\$ 74,268,843	3	1.21%
Philips Electro No American Corp	Industrial	\$ 49,755,300	5	0.73%	\$ 59,887,800	4	0.98%
RREEF America REIT Corp	Commercial/Industrial	\$ 44,145,500	6	0.65%	\$ -	-	-
Navisite, Inc	Commercial/Industrial	\$ 41,536,470	7	0.61%	\$ -	-	-
Verizon New England	Com/Utility	\$ 39,340,100	8	0.58%	\$ -	-	-
One Hundred Minute Man	Industrial	\$ 39,156,300	9	0.58%	\$ -	-	-
Proctor + Gamble (Gillette)	Industrial	\$ 35,989,200	10	0.53%	\$ 35,851,200	8	0.59%
Lincoln Andover LLC (Putnam Investments)	Commercial	\$ -	-	-	\$ 38,397,941	7	0.63%
Andover Park Realty Trust	Commercial	\$ -	-	-	\$ 39,228,300	6	0.64%
BCIA Holdings	Office/Industrial	\$ -	-	-	\$ 53,593,300	5	0.88%
New England Business Center LLC	Industrial/Utility	\$ -	-	-	\$ 33,992,700	10	0.56%
	Totals	<u>\$528,986,710</u>		<u>7.78%</u>	<u>\$550,680,726</u>		<u>9.01%</u>

Source: Official Statement for Sale of Bonds

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	(2) Total Tax Levy	Less Abatements & Exemptions	(2) Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	(3) Percent of Total Tax Collections to Net Tax Levy
2004	\$ 79,164,340	\$ 770,110	\$ 78,394,230	\$ 77,461,156	98.81%	\$ 208,870	\$ 77,670,026	99.08%
2005	\$ 81,667,810	\$ 700,105	\$ 80,967,705	\$ 79,932,648	98.72%	\$ 767,568	\$ 80,700,216	99.67%
2006	(1) \$ 86,009,003	\$ 854,113	\$ 85,154,890	\$ 84,431,577	99.15%	\$ 809,483	\$ 85,241,060	100.10%
2007	\$ 90,261,283	\$ 754,410	\$ 89,506,873	\$ 88,153,719	98.49%	\$ 1,396,877	\$ 89,550,596	100.05%
2008	\$ 94,077,719	\$ 832,176	\$ 93,245,543	\$ 92,107,899	98.78%	\$ 1,017,380	\$ 93,125,279	99.87%
2009	(1) \$ 97,976,754	\$ 1,127,947	\$ 96,848,807	\$ 96,086,383	99.21%	\$ 1,577,331	\$ 97,663,714	100.84%
2010	\$ 101,290,116	\$ 822,806	\$ 100,467,310	\$ 99,241,767	98.78%	\$ 534,529	\$ 99,776,296	99.31%
2011	\$ 104,658,300	\$ 772,521	\$ 103,885,779	\$ 102,625,682	98.79%	\$ 853,286	\$ 103,478,968	99.61%
2012	(1) \$ 108,874,156	\$ 980,114	\$ 107,894,042	\$ 107,067,732	99.23%	\$ 629,152	\$ 107,696,884	99.82%
2013	\$ 111,893,513	\$ 985,564	\$ 110,907,949	\$ 109,842,289	99.04%	\$ -	\$ 109,842,289	99.04%



(1) Revaluation year.

(2) Includes tax liens.

(3) If the actual abatements and exemptions are lower than the estimate, the actual collections can exceed the net levy.

Source: Assessor's Department, Town of Andover

Ratios of Outstanding Debt and General Bonded Debt

Last Ten Fiscal Years

Fiscal Year	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities				
				General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2004	29,843	\$ 1,328,720,243	\$ 6,113,567,902	\$ 81,471,803	\$ -	\$ 2,730	6.13%	1.33%
2005	30,820	\$ 1,399,664,278	\$ 6,350,543,459	\$ 64,311,901	\$ -	\$ 2,087	4.59%	1.01%
2006	33,475	\$ 1,550,643,639	\$ 6,805,544,272	\$ 57,082,966	\$ -	\$ 1,705	3.68%	0.84%
2007	33,284	\$ 1,572,631,974	\$ 7,191,035,284	\$ 54,512,123	\$ -	\$ 1,638	3.47%	0.76%
2008	33,418	\$ 1,610,542,591	\$ 7,179,753,075	\$ 53,776,836	\$ -	\$ 1,609	3.34%	0.75%
2009	33,700	\$ 1,656,615,926	\$ 7,160,470,363	\$ 51,665,413	\$ -	\$ 1,533	3.12%	0.72%
2010	33,700	\$ 1,689,748,245	\$ 6,837,657,244	\$ 50,341,695	\$ -	\$ 1,494	2.98%	0.74%
2011	33,201	\$ 1,698,022,496	\$ 6,616,551,562	\$ 51,225,999	\$ -	\$ 1,543	3.02%	0.77%
2012	33,201	\$ 1,731,982,946	\$ 6,798,505,246	\$ 50,237,699	\$ -	\$ 1,513	2.90%	0.74%
2013	31,656	\$ 1,684,413,276	\$ 6,802,719,926	\$ 67,125,020	\$ -	\$ 2,120	3.99%	0.99%

Fiscal Year	Business-type Activities (1)		Total Primary Government			
	General Obligation Bonds	Capital Leases	Total Debt Outstanding	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2004	\$ 30,141,198	\$ -	\$ 111,613,001	\$ 3,740	8.40%	1.83%
2005	\$ 29,851,101	\$ -	\$ 94,163,002	\$ 3,055	6.73%	1.48%
2006	\$ 27,072,035	\$ -	\$ 84,155,001	\$ 2,514	5.43%	1.24%
2007	\$ 34,974,512	\$ -	\$ 89,486,635	\$ 2,689	5.69%	1.24%
2008	\$ 41,495,469	\$ -	\$ 95,272,305	\$ 2,851	5.92%	1.33%
2009	\$ 40,949,009	\$ -	\$ 92,614,422	\$ 2,748	5.59%	1.29%
2010	\$ 37,567,707	\$ -	\$ 87,909,402	\$ 2,609	5.20%	1.29%
2011	\$ 35,602,018	\$ -	\$ 86,828,017	\$ 2,615	5.11%	1.31%
2012	\$ 33,731,282	\$ -	\$ 83,968,981	\$ 2,529	4.85%	1.24%
2013	\$ 33,435,605	\$ -	\$ 100,560,625	\$ 3,177	5.97%	1.48%

(1) Water and Sewer Funds

Source: Audited Financial Statements, U. S. Census, Division of Local Services

Direct and Overlapping Governmental Activities Debt

As of June 30, 2013

<u>Town of Andover, Massachusetts</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Greater Lawrence Regional Vocational Technical School District... \$	24,610,000	0.8%	\$ 196,880
Greater Lawrence Sanitary District.....	31,147,996	7.1%	2,211,508
Merrimack Valley Transit Authority.....			<u>152,939</u>
Subtotal, overlapping debt.....			<u>2,561,327</u>
Town direct debt.....			<u>67,125,020</u>
Total direct and overlapping debt.....			<u>\$ 69,686,347</u>

Methodologies used to calculate overlapping debt:

Greater Lawrence Regional Vocational Technical School District:

The Town's overlap is based on pupil enrollment.

Greater Lawrence Sanitary District:

The Town's overlap is based on the percent of wastewater received by the District.

Merrimack Valley Transit Authority:

The Town's overlap is based on the proportion of the net cost incurred on routes within each member community.

Source: Official Statement for Sale of Bonds

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Equalized Valuation.....	\$ 6,525,840,900	\$ 6,525,840,900	\$ 7,353,584,000	\$ 7,353,584,000	\$ 7,757,246,000	\$ 7,757,246,000	\$ 7,757,246,000	\$ 7,405,664,700	\$ 7,292,906,600	\$ 7,292,906,600
Debt Limit -5% of Equalized Valuation.....	\$ 326,292,045	\$ 326,292,045	\$ 367,679,200	\$ 367,679,200	\$ 387,862,300	\$ 387,862,300	\$ 387,862,300	\$ 370,283,235	\$ 364,645,330	\$ 364,645,330
Less:										
Outstanding debt applicable to limit.....	59,689,018	59,455,259	59,278,195	61,905,809	67,551,997	67,875,220	66,300,155	67,504,073	65,805,248	67,161,942
Authorized and unissued debt.....	48,127,052	38,994,500	32,853,500	28,691,865	31,184,865	26,227,148	26,655,148	66,704,000	71,307,000	61,724,000
Legal debt margin.....	\$ 218,475,975	\$ 227,842,286	\$ 275,547,505	\$ 277,081,526	\$ 289,125,438	\$ 293,759,932	\$ 294,906,997	\$ 236,075,162	\$ 227,533,082	\$ 235,759,388
Total debt applicable to the limit as a percentage of debt limit.....	33.04%	30.17%	25.06%	24.64%	25.46%	24.26%	23.97%	36.24%	37.60%	35.35%

Source: Official Statement for Sale of Bonds

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	Unemployment Rate
2004	29,843	\$ 1,328,720,243	\$ 44,524	39.5	4.5%
2005	30,820	\$ 1,399,664,278	\$ 45,414	39.5	4.0%
2006	33,475	\$ 1,550,643,639	\$ 46,322	39.5	4.1%
2007	33,284	\$ 1,572,631,974	\$ 47,249	39.5	4.1%
2008	33,418	\$ 1,610,542,591	\$ 48,194	39.5	4.0%
2009	33,700	\$ 1,656,615,926	\$ 49,158	39.5	6.7%
2010	33,700	\$ 1,689,748,245	\$ 50,141	39.5	6.9%
2011	33,201	\$ 1,698,022,496	\$ 51,144	39.5	6.2%
2012	33,201	\$ 1,731,982,946	\$ 52,167	39.5	4.7%
2013	31,656	\$ 1,684,413,276	\$ 53,210	39.5	0.0%

Source: U. S. Census, Division of Local Services, Executive Office of Labor and Workforce Development
 Median age is based on most recent census data.

Principal Employers (excluding Town)

Current Year and Nine Years Ago

Employer	Nature of Business	2013			2004		
		Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Raytheon Co & Endrock Associates	Missile Systems	4,750	1	16%	3,700	1	12%
Internal Revenue Services	Regional Service Center	3,500	2	12%	2,340	2	7%
Philips Medical	Medical Electronics	2,300	3	8%	2,200	3	7%
Pfizer	Biotechnology Research & Manufacturing	1,200	4	4%	1,400	6	4%
Putnam Investments	Mutual Funds	900	5	3%	1,800	4	6%
Vicor	Computer Equipment	850	6	3%	1,650	5	5%
Verizon	Communications	600	7	2%	905	8	3%
Philip Academy	Private School	555	8	2%	1,400	7	4%
Smith & Nephew	Home Supplies	500	9	2%	-	-	-
Hewlett Packard (Compaq)	Computer Equipment	500	10	2%	720	9	2%
Navisite	Internet Service Provider	-	-	-	600	10	2%

Source: Massachusetts Department of Workforce Development

Full-Time Equivalent Town Employees

Last Ten Fiscal Years

	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Full-Time Equivalents</u>										
Town.....	355	355	355	356	356	346	347	344	344	350
School.....	698	758	761	780	784	794	768	772	762	799
Total	<u>1,053</u>	<u>1,113</u>	<u>1,116</u>	<u>1,136</u>	<u>1,140</u>	<u>1,140</u>	<u>1,115</u>	<u>1,116</u>	<u>1,106</u>	<u>1,149</u>

Source: Finance Committee Report

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	Calendar Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Population.....	29,843	30,820	33,475	33,284	33,418	33,700	33,700	33,201	33,201	31,656
Registered Voters, Annual Town Election.....	20,220	19,380	19,656	19,560	12,392	20,505	20,705	20,705	20,705	22,828
Town Clerk										
Births.....	269	272	258	321	249	257	220	220	220	206
Marriages.....	169	133	114	114	113	116	122	122	122	133
Deaths.....	247	260	290	279	290	274	233	233	233	229
Dogs licensed.....	2,272	2,230	2,400	2,365	2,493	2,580	2,469	2,469	2,469	2,527
Fishing & Hunting Licenses	296	265	266	300	300	248	244	244	244	-
Business Certificates.....	177	123	107	125	99	95	70	70	70	78
New Voter Registrations.....	2,611	931	1,501	1,320	1,735	927	1,296	1,296	1,296	2,433
Passport Applications.....	1,200	797	825	868	541	613	531	531	531	-
Public Safety										
Police										
Documented calls for police services.....	32,245	32,209	31,827	34,542	35,153	24,876	34,495	34,495	34,495	33,863
Arrests.....	400	578	622	635	694	536	496	496	496	412
Domestic Abuse.....	26	40	42	41	28	51	45	45	45	53
Vandalism.....	214	185	217	152	150	154	130	130	130	131
Larceny.....	345	458	353	343	487	381	257	257	257	313
Assaults.....	33	55	55	41	22	36	40	40	40	49
Breaking & Entering.....	47	69	60	61	61	75	73	73	73	50
Motor Vehicle accidents.....	1,087	1,007	971	1,057	899	903	924	924	924	847
Parking tickets issued.....	13,900	5,484	5,766	11,249	8,328	6,433	5,187	5,187	5,187	5,072
Total number of animal complaints.....	780	669	769	748	708	732	713	713	713	693
Fire										
Incidents										
Fires.....	1,028	1,279	1,159	979	1,077	1,070	923	923	923	766
EMS Calls.....	2,514	2,632	2,743	2,793	2,853	2,895	2,696	2,696	2,696	2,746
Motor Vehicle Accidents.....	253	265	279	301	241	263	255	255	255	288
Hazardous Conditions.....	109	227	258	253	246	308	280	280	280	312
False Alarms & False Calls.....	744	814	796	678	815	816	752	752	752	748
Miscellaneous Alarms.....	303	192	25	-	-	-	-	-	-	-
Good Intent Calls.....	117	141	130	117	133	150	126	126	126	129
Mutual Aid (Fire Calls).....	21	21	26	22	19	26	29	29	29	34
Ambulance Mutual Aid Calls.....	50	48	41	45	27	25	51	51	51	116

(continued)

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	Calendar Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fire Prevention Activities.....	2,135	1,730	1,658	1,158	1,299	1,202	939	939	939	945
Service Calls.....	2,231	2,421	2,159	2,366	2,222	2,090	408	408	408	499
Training.....	232	225	265	230	218	186	137	137	137	302
Co-Activation.....	25	57	77	77	132	131	141	141	141	130
Permits/certificates issued										
Smoke Detectors.....	840	1,038	718	558	442	446	450	450	450	574
Report Copies.....	82	57	62	58	64	71	60	60	60	48
Blasting Permits.....	68	44	9	4	1	0	2	2	2	-
Cutting/Welding Permits.....	24	24	18	-	33	20	31	31	31	31
Dumpster Permits.....	143	104	169	166	148	179	180	180	180	188
Fireworks Display Permits.....	1	1	2	1	2	2	1	1	1	2
Gunpowder Storage Permits.....	3	-	-	1	-	-	-	-	-	-
Liquid Gas Storage Permits.....	53	95	74	93	60	56	76	76	76	106
Flammable Liquid Storage Permits.....	2	9	34	15	109	27	47	47	47	47
Miscellaneous Permits.....	2	10	17	30	4	25	-	-	-	-
Open Air Burning Permits.....	487	437	517	435	326	489	519	519	519	365
Oil Burner Install Permits.....	138	110	127	131	148	117	147	147	147	100
Commercial Fire Alarm Systems.....	78	80	56	53	51	53	68	68	68	58
Special Suppression System Permits.....	2	9	10	8	12	-	2	2	2	6
Sprinkler Install Permits.....	52	69	66	59	63	47	72	72	72	90
Underground Tank Re-certification.....	11	10	8	3	16	4	18	18	18	14
Underground Tank Removals.....	53	41	49	56	93	54	58	58	58	91
Master Fire Alarm Boxes.....	8	20	20	-	-	-	-	-	-	-
Building Department										
Permits issued.....	1,483	1,284	1,487	1,270	1,288	1,191	1,345	1,345	1,345	1,252
Education										
Public school enrollment.....	6,000	6,026	6,018	5,939	6,127	6,171	6,121	6,121	6,121	6,262
Public Works										
Cemetery										
Lots sold.....	53	111	49	48	35	61	33	33	33	70
Interments/cremations.....	57	75	79	71	49	70	75	75	75	84

(continued)

Operating Indicators by Function/Program

Last Ten Calendar Years

Function/Program	Calendar Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Human Services										
Board of Health										
Plan reviews.....	206	222	180	248	291	243	269	269	269	282
Inspections										
Restaurant	93	153	197	328	339	453	278	278	278	385
Environmental/Sanitary Code.....	185	194	240	386	388	346	322	322	322	418
Complaints investigated.....	309	277	202	-	-	114	138	138	138	101
Administrative Hearings.....	14	10	6	9	6	2	4	4	4	2
Court Actions.....	12	12	3	-	-	-	-	-	-	-
Council on Aging										
Home delivered meals served.....	26,000	26,520	28,776	30,521	25,479	17,794	25,589	25,589	25,589	21,012
Medical-van trips.....	1,750	1,785	1,785	-	-	1,082	1,399	1,399	1,399	1,502
Libraries										
Program attendance.....	8,000	8,131	16,110	14,356	5,855	16,429	16,664	16,664	16,664	17,016
Books & Periodicals.....	345,000	332,661	336,224	333,842	360,845	374,152	364,795	364,795	364,795	394,506
PC & Internet Use.....	52,500	50,757	54,454	52,508	62,828	67,362	76,124	76,124	76,124	65,780
Reference Questions.....	56,000	59,618	61,919	62,426	70,000	75,277	67,195	67,195	67,195	72,163
Non-Print Circulation.....	175,000	162,280	161,887	157,731	129,267	156,273	144,489	144,489	144,489	197,921
Sewer										
Service connections.....	5,850	5,850	5,850	6,100	6,100	6,200	6,200	6,200	6,200	6,200
Water										
Daily consumption (in million gallons).....	6.030	6.720	6.200	7.100	7.300	6.200	6.900	6.900	6.900	6.900

Source: Various Town Departments

(concluded)

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government										
Number of Buildings.....	16	16	16	16	16	16	16	16	16	16
Police										
Number of Stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of Stations.....	3	3	3	3	3	3	3	3	3	3
Education										
Number of elementary schools.....	6	6	6	6	6	6	6	6	6	6
Number of middle schools.....	3	3	3	3	3	3	3	3	3	3
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works										
Water mains (miles).....	235	235	235	235	235	235	235	235	235	235
Fire hydrants.....	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Sanitary sewers (miles).....	146	146	146	146	146	146	146	146	146	146
Storm sewers (miles).....	80	80	80	80	80	80	80	80	80	80
Culture and Recreation										
Playgrounds.....	14	14	14	14	14	14	14	14	14	14
Parks.....	4	4	4	4	4	4	4	4	4	4
Playgrounds - Acreage.....	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Parks - Acreage.....	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88
Public beaches.....	1	1	1	1	1	1	1	1	1	1
Ball fields.....	31	31	31	31	31	31	31	31	31	31
Tennis courts.....	10	10	10	10	10	10	10	10	10	10

Source: Various Town Departments

Computation of Levy Capacity and Unused Levy Capacity

Last Ten Fiscal Years

	Fiscal Year									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Levy Limit.....	\$ 79,165,092	\$ 82,285,046	\$ 86,010,409	\$ 87,189,479	\$ 94,111,774	\$ 97,209,952	\$ 101,350,979	\$ 104,729,225	\$ 109,075,475	\$ 112,609,324
Previous Levy.....	72,287,345	75,252,414	78,949,600	82,958,866	87,189,479	91,201,846	94,838,978	98,313,488	101,868,863	106,128,017
Legal Increase.....	1,807,184	1,881,310	1,973,740	2,073,972	2,179,737	2,280,046	2,370,974	2,457,837	2,546,722	2,653,200
New Growth.....	1,157,885	1,815,876	2,035,526	2,156,641	1,832,630	1,357,086	1,103,536	1,097,538	1,712,432	1,479,022
Debt Exclusion.....	3,912,678	3,335,446	3,051,543	3,110,790	2,909,928	3,173,848	3,037,491	2,860,362	2,947,458	2,349,085
Maximum Taxing Capacity...	<u>\$ 79,165,092</u>	<u>\$ 82,285,046</u>	<u>\$ 86,010,409</u>	<u>\$ 90,300,269</u>	<u>\$ 94,111,774</u>	<u>\$ 98,012,826</u>	<u>\$ 101,350,979</u>	<u>\$ 104,729,225</u>	<u>\$ 109,075,475</u>	<u>\$ 112,609,324</u>
Actual Levy.....	\$ 79,164,340	\$ 81,667,810	\$ 86,009,003	\$ 90,261,283	\$ 94,077,719	\$ 97,976,754	\$ 101,290,116	\$ 104,658,300	\$ 108,874,156	\$ 111,893,513
Unused Levy Capacity.....	\$ 752	\$ 617,236	\$ 1,406	\$ 38,986	\$ 34,055	\$ 36,072	\$ 60,863	\$ 70,925	\$ 201,319	\$ 715,811

Source: Assessor's Department, Town of Andover