

TOWN OF BLANDFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balances	4
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	5
Proprietary Funds:	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Fund Net Assets	7
Statement of Cash Flows	8
Fiduciary Funds:	
Statement of Fiduciary Net Assets	9
Notes to Financial Statements	10
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23

MH&Co

Melanson Heath & Company, PC

Certified Public Accountants
Management Advisors

51 Davis Street
Greenfield, MA 01301
Tel (413) 772-2546 Fax (413) 772-2547
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Blandford, Massachusetts

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Town of Blandford, Massachusetts, as of and for the year ended June 30, 2009, which collectively comprise a portion of the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Blandford's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental or business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Town's governmental activities are not reasonably determinable. Also as discussed

Additional Offices:

Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME

in Note 2 to the financial statements, management maintains the water enterprise fund on a modified accrual basis, and has not recorded certain capital assets in business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require enterprise funds be reported on an accrual basis of accounting, and that capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the business-type activities is not reasonably determinable.

Due to the existence of significant variances between the Town's general ledger and supporting detail maintained by the Town Collector and the Water Department, we were unable to form an opinion as to the accuracy of the receivable balances for water user charges and property taxes. These balances are stated at \$ 55,854, and \$ 852,794 respectively, in the accompanying financial statements as of June 30, 2009.

In our opinion, because of the significance of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Blandford, as of June 30, 2009 or the changes in financial position or cash flows, where applicable thereof for the year then ended.

The Town has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2010, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
September 27, 2010

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

ASSETS	<u>General</u>	<u>Beech Hill Road Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments:	\$ 199,539	\$ 400,000	\$ 275,781	\$ 875,320
Investments	-	-	513,220	513,220
Receivables:				
Property taxes	852,794	-	-	852,794
Excises	93,820	-	-	93,820
Intergovernmenta	-	-	146,245	146,245
Loans	-	-	20,291	20,291
Departmental and other	470	-	-	470
Other assets	<u>3,555</u>	<u>-</u>	<u>-</u>	<u>3,555</u>
TOTAL ASSETS	<u>\$ 1,150,178</u>	<u>\$ 400,000</u>	<u>\$ 955,537</u>	<u>\$ 2,505,715</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 23,737	\$ 382,713	\$ -	\$ 406,450
Accounts payable	9,386	-	157,669	167,055
Accrued payroll	8,208	-	-	8,208
Deferred revenues	<u>947,084</u>	<u>-</u>	<u>-</u>	<u>947,084</u>
TOTAL LIABILITIES	988,415	382,713	157,669	1,528,797
Fund Balances				
Reserved for:				
Encumbrances	5,000	-	-	5,000
Perpetual (nonexpendable) permanent fund	-	-	573,278	573,278
Unreserved:				
Undesignated, reported in				
General fund	156,763	-	-	156,763
Special revenue funds	-	17,287	88,565	105,852
Permanent funds	<u>-</u>	<u>-</u>	<u>136,025</u>	<u>136,025</u>
TOTAL FUND BALANCES	<u>161,763</u>	<u>17,287</u>	<u>797,868</u>	<u>976,918</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,150,178</u>	<u>\$ 400,000</u>	<u>\$ 955,537</u>	<u>\$ 2,505,715</u>

See notes to financial statements

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Beech Hill Road Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 1,856,319	\$ -	\$ -	\$ 1,856,319
Excises	137,555	-	-	137,555
Penalties, interest and other taxes	208,177	-	-	208,177
Charges for services	61,379	-	17,256	78,635
Intergovernmental	203,244	-	1,106,186	1,309,430
Licenses and permits	2,110	-	-	2,110
Fines and forfeitures	10,820	-	-	10,820
Investment income (loss)	3,430	-	(123,233)	(119,803)
Miscellaneous	1,372	-	32,030	33,402
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	2,484,406	-	1,032,239	3,516,645
Expenditures:				
Current:				
General government	244,993	-	16,549	261,542
Public safety	61,760	-	52,373	114,133
Education	1,703,329	-	89,279	1,792,608
Public works	447,248	382,713	1,068,595	1,898,556
Health and human services	16,427	-	3,844	20,271
Culture and recreation	34,981	-	3,457	38,438
Employee benefits	83,261	-	-	83,261
Debt service	43,258	-	-	43,258
Intergovernmental	10,525	-	-	10,525
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	2,645,782	382,713	1,234,097	4,262,592
Excess (deficiency) of revenues over expenditures	(161,376)	(382,713)	(201,858)	(745,947)
Other Financing Sources (Uses):				
Bond proceeds	-	-	22,500	22,500
Transfers in	66,000	-	-	66,000
Transfers out	-	-	(66,000)	(66,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	66,000	-	(43,500)	22,500
Change in fund balance	(95,376)	(382,713)	(245,358)	(723,447)
Fund Equity, at Beginning of Yea	<hr/>	<hr/>	<hr/>	<hr/>
Fund Equity, at End of Year	\$ <u>161,763</u>	\$ <u>17,287</u>	\$ <u>797,868</u>	\$ <u>976,918</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 2,025,747	\$ 2,025,747	\$ 2,025,747	\$ -
Excise	133,600	133,600	137,555	3,955
Penalties, interest and other taxes	161,000	161,000	208,177	47,177
Charges for services	64,400	64,400	61,379	(3,021)
Intergovernmental	225,350	225,350	203,244	(22,106)
Licenses and permits	4,000	4,000	2,110	(1,890)
Fines and forfeits	12,000	12,000	10,820	(1,180)
Investment income	10,000	10,000	3,430	(6,570)
Miscellaneous	-	-	1,372	1,372
Transfers in	66,000	66,000	66,000	-
Other sources	27,500	27,500	27,500	-
Total Revenues and Other Sources	2,729,597	2,729,597	2,747,334	17,737
Expenditures and Other Uses:				
General government	275,478	248,878	221,283	27,595
Public safety	64,090	64,090	61,760	2,330
Education	1,691,148	1,703,148	1,702,351	797
Public works	387,386	418,186	447,248	(29,062)
Health and human services	24,802	23,802	16,427	7,375
Culture and recreation	39,500	39,100	34,158	4,942
Employee benefits	98,170	83,370	83,261	109
Debt service	45,832	45,832	43,258	2,574
Intergovernmental	11,748	11,748	10,525	1,223
Other uses	91,443	91,443	91,443	-
Total Expenditures and Other Uses	2,729,597	2,729,597	2,711,714	17,883
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 35,620	\$ 35,620

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities <u>Water Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 305,444
User charges receivable	55,854
Utility liens receivable	<u>112,783</u>
Total current assets	474,081
Noncurrent:	
Capital assets, net of accumulated depreciation	<u>4,464,722</u>
Total noncurrent assets	<u>4,464,722</u>
TOTAL ASSETS	4,938,803
<u>LIABILITIES</u>	
Current:	
Warrants payable	15,366
Accrued interest	58,472
Current portion of long-term liabilities:	
Bonds payable	<u>87,224</u>
Total current liabilities	161,062
Noncurrent:	
Bonds payable, net of current portion	<u>4,377,498</u>
Total noncurrent liabilities	<u>4,377,498</u>
TOTAL LIABILITIES	4,538,560
<u>NET ASSETS</u>	
Unrestricted	<u>400,243</u>
TOTAL NET ASSETS	\$ <u><u>400,243</u></u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities <u>Water</u> <u>Fund</u>
Operating Revenues:	
Charges for services	\$ <u>376,788</u>
Total Operating Revenues	376,788
Operating Expenses:	
Salaries and wages	54,780
Purchased services/materials and supplies	159,399
Depreciation	<u>85,786</u>
Total Operating Expenses	<u>299,965</u>
Operating Income	76,823
Nonoperating Revenues (Expenses):	
Investment income	472
Interest expense	<u>(202,272)</u>
Total Nonoperating Revenues (Expenses), net	<u>(201,800)</u>
Change in Net Assets	(124,977)
Net Assets at Beginning of Year	<u>525,220</u>
Net Assets at End of Year	\$ <u><u>400,243</u></u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Water Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 734,314
Payments to vendors and employees	<u>(206,338)</u>
Net Cash Provided By Operating Activities	527,976
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Principal debt repayments	(85,786)
Interest expense	<u>(198,976)</u>
Net Cash (Used For) Capital and Related Financing Activities	(284,762)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>472</u>
Net Cash Provided By Investing Activities	<u>472</u>
Net Change in Cash and Short-Term Investments	243,686
Cash and Short Term Investments, Beginning of Year	<u>61,758</u>
Cash and Short Term Investments, End of Year	<u>\$ 305,444</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating income	\$ 76,823
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	85,786
Changes in assets and liabilities:	
User fees	357,526
Warrants payable	10,340
Accrued payroll and withholdings	<u>(2,499)</u>
Net Cash Provided by Operating Activities	<u>\$ 527,976</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>9,197</u>
Total Assets	9,197
 <u>LIABILITIES</u>	
Other liabilities	<u>9,197</u>
Total Liabilities	\$ <u><u>9,197</u></u>

See notes to financial statements.

Town of Blandford, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Blandford (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2009, it was determined that no entities met the required GASB-14 criteria of component units.

B. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when *they* are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Beech Hill Road Improvements fund* is a special revenue fund established to account for funds received from the Springfield Water and Sewer Commission to fund improvements to Beech Hill Road.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the *water enterprise fund* as a major proprietary fund.

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income. For purpose of the statement of cash flows, the proprietary fund considers investments with original maturities of three months or less to be short-term investments.

E. Investments

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2009 tax levy reflected an excess capacity of \$ 241.

G. Long-Term Obligations

In the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

H. Fund Equity

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

I. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. **Departures from Generally Accepted Accounting Principles**

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Town's governmental activities are not reasonably determinable.
- Management has not recorded certain capital assets in business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the business-type activities is not reasonably determinable.
- The Town has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

3. **Stewardship, Compliance and Accountability**

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Ex

traordinary” includes expenses which are not in the usual line, or are great or exceptional. “Unforeseen” includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted. Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year’s tax rate.

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 2,484,406	\$ 2,645,782
Other financing sources/uses (GAAP basis)	<u>66,000</u>	<u>-</u>
Subtotal (GAAP basis)	2,550,406	2,645,782
Adjust tax revenue to accrual basis	169,428	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(21,125)
Add end of year appropriation carryforwards to expenditures	-	5,000
Reverse accrual of legal fees		(9,386)
Recognize use of fund balance as a funding source/use	<u>27,500</u>	<u>91,443</u>
Budgetary basis	<u>\$ 2,747,334</u>	<u>\$ 2,711,714</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Public Works	\$ 29,062
--------------	-----------

E. Deficit Fund Equity

The following funds had deficit fund balances as of June 30, 2009:

Special Revenue Fund:

FEMA Storm Damage 08	\$ (65,059)
Fire Safety Grant	(1,740)
Gateway Septic	(7,619)

4. Cash and Short-Term Investments

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

As of June 30, 2009, \$ 140,358 of the Town's bank balance of \$ 1,377,812 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department but not in the Town's name.

5. Investments

A. Credit Risk

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

The Town's investment consist of the following, none of which are subject to credit risk rating:

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of deposits	\$ 121,489
Corporate equities	321,044
Mutual funds	<u>70,687</u>
Total investments	<u>\$ 513,220</u>

B. Custodial Credit Risk

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

Of the investment in certificate of deposits and corporate equities of \$ 442,533, the government has a custodial credit risk exposure of \$ 288,981 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The remaining investments consist of mutual funds, which are not subject to custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than mutual funds) that represent 5% or more of total investments are as follows:

Citizens Bank CD	\$ 61,996
General Electric Corporation Common Stock	27,003

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>N/A</u>
Certificates of deposit	\$ 121	\$ 34	\$ 77	\$ 10	\$ -
Corporate equities	321	-	-	-	321
Mutual funds	71	-	-	-	71
Total	<u>\$ 513</u>	<u>\$ 34</u>	<u>\$ 77</u>	<u>\$ 10</u>	<u>\$ 392</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town does not have policies for foreign currency risk.

6. Taxes Receivable

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

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2009 consist of the following (in thousands):

Real Estate		
2009	\$ 263	
2008	163	
2007	152	
2006	34	
Prior	<u>122</u>	
		734
Personal Property		
2009	18	
2008	4	
2007	3	
2006	2	
Prior	<u>20</u>	
		47
Tax Liens		51
Tax Possessions		<u>21</u>
Total		<u>\$ 853</u>

7. Intergovernmental Receivables

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

8. Loans Receivable

This balance represents loans to taxpayers for septic improvements granted under a State-sponsored Title V loan program.

9. Warrants and Accounts Payable

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

10. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2009 receivable balances.

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and proprietary fund purposes. General obligation bonds currently outstanding are as follows:

<u>Governmental Funds:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s)%</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>June 30, 2009</u>
<u>Notes Payable: *</u>			
Highway equipment	09/18/09	2.18	\$ 55,000
Fire turnout gear	09/30/09	1.72	22,500
<u>Bonds Payable:</u>			
Landfill capping	05/23/24	5.95	<u>156,000</u>
Total Governmental Funds			233,500
<u>Business-Type Activities:</u>			
<u>Bonds Payable:</u>			
Water Bond - FmHA	06/04/25	4.875	91,938
Water Bond - FmHA	06/08/42	4.375	1,028,038
Water Bond - FmHA	12/16/43	4.5	1,234,336
Water Bond - FmHA	08/28/45	4.375	1,273,642
Water Bond - FmHA	06/12/46	4.125	<u>836,768</u>
Business-Type Activities			<u>4,464,722</u>
Total All Debt			<u>\$ 4,698,222</u>

* This borrowing is a short-term note intended to finance this project over the next few years. This is being accomplished by rolling over a short-term note for a lesser amount each year. The interest rate reported is the interest rate for the short-term notes issued in fiscal year 2009 and due in fiscal year 2010.

B. Future Debt Service

The annual payments to retire all bonds payable outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 10,400	\$ 9,282	\$ 19,682
2011	10,400	8,663	19,063
2012	10,400	8,044	18,444
2013	10,400	7,426	17,826
2014	10,400	6,807	17,207
2015 - 2019	52,000	24,752	76,752
2020 - 2024	<u>52,000</u>	<u>9,280</u>	<u>61,280</u>
Total	<u>\$ 156,000</u>	<u>\$ 74,254</u>	<u>\$ 230,254</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 87,224	\$ 195,243	\$ 282,467
2011	88,726	191,444	280,170
2012	90,296	187,579	277,875
2013	91,937	183,642	275,579
2014	93,650	179,633	273,283
2015 - 2019	496,784	835,192	1,331,976
2020 - 2024	552,794	721,785	1,274,579
2025 - 2029	586,603	597,201	1,183,804
Thereafter	<u>2,376,708</u>	<u>930,562</u>	<u>3,307,270</u>
Total	<u>\$ 4,464,722</u>	<u>\$ 4,022,281</u>	<u>\$ 8,487,003</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2008	Addition	Reduction	Total Balance June 30, 2009	Less Current Portion	Equals Long-Term Portion June 30, 2009
<u>Governmental Activities</u>						
Notes payable	\$ 75,000	\$ 22,500	\$ (20,000)	\$ 77,500	\$ (25,000)	\$ 52,500
Bonds payable	166,400	-	(10,400)	156,000	(10,400)	145,600
Other:						
Landfill closure	57,420	-	(2,610)	54,810	(2,610)	52,200
Totals	\$ <u>298,820</u>	\$ <u>22,500</u>	\$ <u>(33,010)</u>	\$ <u>288,310</u>	\$ <u>(38,010)</u>	\$ <u>250,300</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,550,508	\$ -	\$ (85,786)	\$ 4,464,722	\$ (87,224)	\$ 4,377,498
Totals	\$ <u>4,550,508</u>	\$ <u>-</u>	\$ <u>(85,786)</u>	\$ <u>4,464,722</u>	\$ <u>(87,224)</u>	\$ <u>4,377,498</u>

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Town closed its landfill in 2000. The estimated cost of monitoring the landfill for the next 21 years is \$ 54,810. This amount is based on what it would cost to perform all post-closure care in 2009. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

13. Reserves of Fund Equity

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

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

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

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

14. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such over expenditures, however, must be funded in the subsequent year’s tax rate.

Massachusetts general laws allow municipalities to adopt an alternative debt service funding schedule for projects subject to debt exclusion votes. These "reserve balances" carry forward from year to year and must be appropriated only for debt service costs related to the debt exclusion project.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 156,763
Appropriation deficits	30,159
Overlay deficits	<u>2,487</u>
Statutory (UMAS) Balance	<u>\$ 189,409</u>

15. Commitments and Contingencies

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

16. Post-Employment Health Care and Life Insurance Benefits

In addition to the pension benefits described in the following note, the Town provides postemployment health care and life insurance benefits, in accordance with state statute, to participating retirees. Presently the Town finances these benefits on the pay-as-you-go basis and does not contribute to a qualified plan (trust) as defined by *GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*.

The Town plans to fully implement *GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* when it becomes effective (for the Town) in fiscal year 2010.

17. **Pension Plan**

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

A. Plan Description

The Town contributes to the Hampden County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Hampden County Retirement System, Hall of Justice, 50 State Street, Springfield, MA 01102.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. Town's contributions to the System for the years ended June 30, 2009, 2008, and 2007 were \$ 21,030, \$ 28,055, and \$ 19,427, respectively, which were equal to its annual required contributions for each of these years.

18. **Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

MH&Co

Melanson Heath & Company, PC

Certified Public Accountants
Management Advisors

51 Davis Street

Greenfield, MA 01301

Tel (413) 772-2546 Fax (413) 772-2547

www.melansonheath.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Selectmen
Town of Blandford, Massachusetts

We have audited the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Town of Blandford, Massachusetts, as of and for the year ended June 30, 2009, which collectively comprise a portion of the Town's basic financial statements and have issued our report thereon dated September 27, 2010. We did not express an opinion on the Town's governmental activities because management did not present government-wide financial statements to display the financial position and changes in financial position of its governmental or business-type activities. In addition, the report on each major fund and the aggregate remaining fund information was qualified due to the existence of significant variances between the Town's general ledger and supporting detail. Except as discussed in the preceding sentences, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in findings 09-1 through 09-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings, we believe that findings 09-1 through 09-4 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 09-1 and 09-6.

In addition, we noted other matters, which we have reported to the management of the Town in a separate letter dated September 27, 2010.

This report is intended solely for the information and use of management, the Board of Selectmen, governmental awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
September 27, 2010

TOWN OF BLANDFORD, MASSACHUSETTS

Schedule of Findings

For the Year Ended June 30, 2009

**Finding
#**

Finding/Noncompliance

09-1

**IMPROVE PROCEDURES FOR DOCUMENTING BID COMPLIANCE
(COMPLIANCE FINDING/ MATERIAL WEAKNESS)**

Massachusetts General Laws Chapter 30B requires that purchases of \$ 5,000 to \$ 25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$ 25,000 or more be subject to a formal bidding process.

In testing for compliance with MGL Chapter 30B, we noted four instance of noncompliance:

- One instance where \$ 99,355 was paid for Beech Hill culvert work and, therefore, should have been subject to a formal bidding process.
- One instance where \$ 6,185 was paid for snow and ice labor and, therefore, three written quotes should have been obtained.
- One instance where \$ 2,430 was paid for water supplies; however the total expenditures for this vendor for the fiscal year was over \$ 5,000 and, therefore, three written quotes should have been obtained.
- One instance where \$ 4,793 was paid for water repair work; however the total expenditures for this vendor for the fiscal year was over \$ 25,000 and, therefore, should have been subject to a formal bidding process.

The Town could not supply us with documentation evidencing compliance with the requirements of Chapter 30B in any of these instances.

In addition, the Town does not currently require that departments provide evidence of vendor quotes or bids when submitting invoices for payment to the Town Accountant. This complicates the Town Accountant's disbursement review and approval process, and increases the risk that purchases may be made without following required procurement procedures.

We recommend that in the future the Town maintain documentation to support compliance with Chapter 30B in all applicable purchases of goods and services.

We also recommend departments attach documented evidence of vendor quotes/bids to invoices when submitting to the Town Accountant for disbursement processing. This will expedite the approval process and will provide additional assurance that procurement procedures were properly followed.

09-2

IMPROVE CONTROLS OVER DISBURSEMENTS (MATERIAL WEAKNESS)

During our detailed testing of internal controls over 25 vendor disbursements, we noted the following:

- Three instances where payments were made to individuals for which insufficient documentation was supplied to support the payment.
- One instance where an invoice was not approved for payment by the Department.
- One instance where a reimbursement to an employee was only approved by that same individual.
- One instance where a payment was made from a faxed copy.
- One instance where an invoice for a phone bill was charged to the “street lights” account.

Documentation, authorization and invoice review procedures are integral parts of a good system of internal controls and provide assurance that the Town’s expenditures are legitimate and accurate.

We recommend the Town establish formal procedures concerning invoice processing which include ensuring proper documentation and authorization of invoices is supplied prior to disbursement. We also recommend the Town closely review the accounts charged when invoices are processed to ensure that all charges are coded properly.

09-3 IMPROVE BUDGETING PROCESS (MATERIAL WEAKNESS)

During our review of the Town’s report of expenditures produced from its accounting software package, we noted that the budget column did not agree to the approved budget and subsequent amendments. In one instance the budget column was overstated by approximately \$ 30,000, which masked a deficit that should have been, but was not, raised on the subsequent year tax recap.

In addition, year end budget transfers were recorded as adjustments to actual expenditure accounts, rather than as adjustments to budgetary accounts. As a result, departmental budgets and actual expenditures were both misstated.

We recommend the Town implement or improve procedures to ensure the approved budget is accurately reflected in its financial accounting software system.

09-4 IMPLEMENT RECONCILIATION PROCEDURES FOR ACCOUNTS RECEIVABLE (MATERIAL WEAKNESS)

As in prior years, our inquiries found that accounts receivable are not reconciled on a regular (monthly/quarterly) basis. Reconciliation of key general ledger account balances to supporting documentation is integral to ensuring the accuracy of the Town's accounting records.

As a result of the lack of reconciliation procedures, we noted the following issues:

- Real estate taxes receivable could not be reconciled to the Collector's detail. The variance was material and resulted in an audit opinion disclaimer.

- Water use charges receivable could not be reconciled to the Water Department's detail. The variance was material and resulted in an audit opinion disclaimer.
- Water liens and motor vehicle excise receivables reported in the general ledger were at variance with the Collector's detail, although the variances were not considered to be material.

Lack of an adequate reconciliation process minimizes the benefit gained by segregating duties and greatly increases the risk that errors or irregularities could occur and go undetected. It may also delay the Town's ability to certify the year-end "free cash" balance since Department of Revenue directives require a receivable reconciliation at year end as part of the certification process.

In addition we noted that the Treasurer has approximately \$ 16,000 shown as deposits in transit on her bank account reconciliation. This amount represents direct deposits made by the Town's receivable vendor (Point Software) for payment of taxes; however, these amounts have not been recorded in the general ledger since the Treasurer has not been informed which tax type and levy year these receipts relate to.

We recommend the Town establish formal procedures to reconcile all accounts receivable balances on a monthly basis. This will provide additional assurance that accurate information is provided to Town management, will reduce the likelihood that errors or irregularities could occur and go undetected and will enable free cash certifications to be completed in a timely manner. This will also reduce the effort required to close the books at year end.

09-5 IMPROVE ACCOUNTING FOR WATER LIENS (SIGNIFICANT DEFICIENCY)

During fiscal year 2009 the Town liened water use charges receivable but did not include interest to the date of taking. Since these outstanding balances have already been added to real estate tax bills there is no way to collect the interest that should have been assessed.

We recommend the Town properly account for water liens before they are removed from user charges and added to resident's real estate tax bills. This will ensure the Town bills for all rightful charges.

09-6 IMPROVE RECORD KEEPING – ASSESSORS' OFFICE (COMPLIANCE FINDING)

As in prior years, we found the Assessor's office was unable to locate all personal property and real estate tax abatements issued during the fiscal year.

As custodian of Town records, the Assessors must safely store and retain original documents. A municipal record disposition schedule for Assessors (available from the Archives Division – Records Management Section of the Office of the Secretary of State) details retention requirements for each type of document originating in the Assessor's office.

We recommend the Assessors' Office, as originators of abatement documentation, establish procedures to ensure that all original documentation is retained, properly approved and locatable.