

**TOWN OF BLANDFORD, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

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### 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, 2010, 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.

*Additional Offices:*

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

As discussed in Note 2 to the financial statements, management has not recorded a liability for Other Post-Employment Benefits (OPEB) in governmental activities. Accounting principles generally accepted in the United States of America require a liability be established for OPEB costs, which would increase the liabilities and decrease the net assets of the governmental activities. The amount which this departure would affect the liabilities and net assets of the governmental activities not reasonably determinable.

Also as discussed 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 property taxes, water user charges, and water utility liens. These balances are stated at \$ 956,168, \$ 82,029, and \$ 112,532, respectively, in the accompanying financial statements as of June 30, 2010. In addition, due to the lack of reconciliation between the Collector's bank accounts and the general ledger, we were unable to form an opinion as to the accuracy of the cash and short-term investment balances. The governmental funds, business-type activities, and agency fund balances are stated at \$ 675,975, \$ 317,706, and \$ 15,882, respectively in the accompanying financial statements as of June 30, 2010.

The Town has not implemented the Government Accounting Standards Board Statement 45 (GASB 45) which requires that an actuarial valuation be performed of post-employment benefits paid to Town retirees as well as financial statement disclosures related to that actuarial valuation. As a result these financial statements do not include complete disclosures of the actuarial liability for post-employment benefits as required by generally accepted accounting principles.

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, Massachusetts as of June 30, 2010 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 November 16, 2011, 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  
November 16, 2011

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

<b>ASSETS</b>	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and short-term investments	\$ 258,331	\$ 417,644	\$ 675,975
Investments	-	446,487	446,487
Receivables:			
Property taxes	956,168	-	956,168
Excises	86,702	-	86,702
Intergovernmental	-	118,252	118,252
Loans	-	20,291	20,291
Departmental and other	471	-	471
<b>TOTAL ASSETS</b>	<b>\$ <u>1,301,672</u></b>	<b>\$ <u>1,002,674</u></b>	<b>\$ <u>2,304,346</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 22,164	\$ 7,066	\$ 29,230
Accounts payable	-	157,669	157,669
Accrued payroll	9,059	-	9,059
Other liabilities	18,239	-	18,239
Deferred revenues	1,043,342	-	1,043,342
<b>TOTAL LIABILITIES</b>	<b>1,092,804</b>	<b>164,735</b>	<b>1,257,539</b>
Fund Balances:			
Reserved for:			
Encumbrances	4,070	-	4,070
Perpetual (nonexpendable) permanent funds	-	522,461	522,461
Unreserved:			
Undesignated, reported in:			
General fund	204,798	-	204,798
Special revenue funds	-	115,785	115,785
Permanent funds	-	199,693	199,693
<b>TOTAL FUND BALANCES</b>	<b><u>208,868</u></b>	<b><u>837,939</u></b>	<b><u>1,046,807</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>1,301,672</u></b>	<b>\$ <u>1,002,674</u></b>	<b>\$ <u>2,304,346</u></b>

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, 2010

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmenta <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 2,073,367	\$ -	\$ 2,073,367
Excises	136,317	-	136,317
Penalties, interest and other taxes	211,932	-	211,932
Charges for services	77,725	18,448	96,173
Intergovernmental	191,183	65,498	256,681
Licenses and permits	1,975	-	1,975
Fines and forfeitures	9,225	-	9,225
Investment income	538	48,771	49,309
Miscellaneous	408	1,469	1,877
	<u>2,702,670</u>	<u>134,186</u>	<u>2,836,856</u>
<b>Total Revenues</b>			
<b>Expenditures:</b>			
Current:			
General government	271,038	25,057	296,095
Public safety	73,782	23,233	97,015
Education	1,608,969	5,549	1,614,518
Public works	455,559	78,509	534,068
Health and human services	21,790	3,750	25,540
Culture and recreation	40,394	4,777	45,171
Employee benefits	86,541	-	86,541
Debt service	46,144	-	46,144
Intergovernmental	11,292	-	11,292
	<u>2,615,509</u>	<u>140,875</u>	<u>2,756,384</u>
<b>Total Expenditures</b>			
Excess (deficiency) of revenues over expenditures	87,161	(6,689)	80,472
<b>Other Financing Sources (Uses):</b>			
Transfers in	5,528	35,001	40,529
Transfers out	<u>(45,584)</u>	<u>(5,528)</u>	<u>(51,112)</u>
	<u>(40,056)</u>	<u>29,473</u>	<u>(10,583)</u>
<b>Total Other Financing Sources (Uses)</b>			
Change in fund balance	47,105	22,784	69,889
Fund Equity, at Beginning of Year, as reclassified	<u>161,763</u>	<u>815,155</u>	<u>976,918</u>
Fund Equity, at End of Year	<u>\$ 208,868</u>	<u>\$ 837,939</u>	<u>\$ 1,046,807</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, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 2,122,000	\$ 2,122,000	\$ 2,122,000	\$ -
Excise	135,228	135,228	136,317	1,089
Penalties, interest and other taxes	196,000	196,000	211,932	15,932
Charges for services	77,186	77,186	77,725	539
Intergovernmental	173,130	173,130	191,183	18,053
Licenses and permits	2,000	2,000	1,975	(25)
Fines and forfeits	10,000	10,000	9,225	(775)
Investment income	4,000	4,000	538	(3,462)
Miscellaneous	-	-	408	408
Transfers in	5,528	5,528	5,528	-
<b>Total Revenues and Other Sources</b>	<u>2,725,072</u>	<u>2,725,072</u>	<u>2,756,831</u>	<u>31,759</u>
<b>Expenditures and Other Uses:</b>				
General government	289,664	288,664	270,108	18,556
Public safety	73,954	73,954	73,782	172
Education	1,656,906	1,656,906	1,608,969	47,937
Public works	426,400	444,267	455,559	(11,292)
Health and human services	24,902	21,935	21,790	145
Culture and recreation	41,160	41,160	40,394	766
Employee benefits	100,120	86,220	86,541	(321)
Debt service	48,046	48,046	46,144	1,902
Intergovernmental	11,332	11,332	11,292	40
Transfers out	45,584	45,584	45,584	-
Other uses	7,004	7,004	7,004	-
<b>Total Expenditures and Other Uses</b>	<u>2,725,072</u>	<u>2,725,072</u>	<u>2,667,167</u>	<u>57,905</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>89,664</u>	\$ <u>89,664</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities
	<u>Water Fund</u>
<b><u>ASSETS</u></b>	
Current:	
Cash and short-term investments	\$ 317,706
User charges receivable	82,029
Utility liens receivable	112,532
Tax liens receivable	<u>4,511</u>
Total current assets	516,778
Noncurrent:	
Capital assets, net of accumulated depreciation	<u>4,377,498</u>
Total noncurrent assets	<u>4,377,498</u>
<b>TOTAL ASSETS</b>	<b>4,894,276</b>
<b><u>LIABILITIES</u></b>	
Current:	
Warrants payable	27,366
Accrued interest	58,292
Current portion of long-term liabilities:	
Bonds payable	<u>88,726</u>
Total current liabilities	174,384
Noncurrent:	
Bonds payable, net of current portion	<u>4,288,772</u>
Total noncurrent liabilities	<u>4,288,772</u>
<b>TOTAL LIABILITIES</b>	<b>4,463,156</b>
<b><u>NET ASSETS</u></b>	
Unrestricted	<u>431,120</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u><u>431,120</u></u></b>

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, 2010

	Business-Type Activities <u>Water Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ <u>524,115</u>
Total Operating Revenues	524,115
<b>Operating Expenses:</b>	
Salaries and wages	59,156
Purchased services/materials and supplies	163,175
Depreciation	<u>87,224</u>
Total Operating Expenses	<u>309,555</u>
Operating Income	214,560
<b>Nonoperating Revenues (Expenses):</b>	
Investment income	796
Interest expense	<u>(195,062)</u>
Total Nonoperating Revenues (Expenses), net	<u>(194,266)</u>
Income Before Transfers	20,294
<b>Transfers:</b>	
Transfers in	<u>10,583</u>
Change in Net Assets	30,877
Net Assets at Beginning of Year	<u>400,243</u>
Net Assets at End of Year	<u>\$ <u>431,120</u></u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Water Fund
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from customers and users	\$ 493,680
Payments to vendors and employees	<u>(210,331)</u>
Net Cash Provided By Operating Activities	283,349
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>	
Principal debt repayments	(87,224)
Interest expense	<u>(195,242)</u>
Net Cash (Used For) Capital and Related Financing Activities	(282,466)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	796
Transfers from other funds	<u>10,583</u>
Net Cash Provided By Investing Activities	<u>11,379</u>
Net Change in Cash and Short-Term Investments	12,262
Cash and Short Term Investments, Beginning of Year	<u>305,444</u>
Cash and Short Term Investments, End of Year	<u>\$ 317,706</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u></b>	
Operating income	\$ 214,560
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	87,224
Changes in assets and liabilities:	
User fees	(30,435)
Warrants payable	<u>12,000</u>
Net Cash Provided by Operating Activities	<u>\$ 283,349</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	Agency Funds
<b><u>ASSETS</u></b>	
Cash and short-term investments	\$ <u>15,882</u>
Total Assets	15,882
 <b><u>LIABILITIES</u></b>	
Other liabilities	<u>15,882</u>
Total Liabilities	\$ <u><u>15,882</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 2010, 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 fund:

- 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 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 2010 tax levy reflected an excess capacity of \$ 1,730.

*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.
- The Town has not recorded a liability for Other Post-Employment Benefits (OPEB) as required by accounting principles generally accepted in the United State of America.
- Management reports the water fund on a modified accrual basis of accounting, however, accounting principles generally accepted in the United States requires it to be reported on the accrual basis of accounting.
- 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. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted. Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and

for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund 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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 2,702,670	\$ 2,615,509
Other financing sources/uses (GAAP basis)	<u>5,528</u>	<u>45,584</u>
Subtotal (GAAP basis)	2,708,198	2,661,093
Adjust tax revenue to accrual basis	48,633	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,000)
Add end of year appropriation carryforwards to expenditures	-	4,070
Recognize use of fund balance as a financing use	<u>-</u>	<u>7,004</u>
Budgetary basis	<u>\$ 2,756,831</u>	<u>\$ 2,667,167</u>

D. Excess of Expenditures Over Appropriations

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

Department of Public Works	\$ (11,478)
Department of Public Safety	(3,223)

**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, 2010, \$ 57,637 of the Town's bank balance of \$ 1,237,881 were exposed to custodial credit risk as uninsured or uncollateralized.

**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 investments consist of the following, none of which are subject to credit risk rating:

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of deposits	\$ 35,017
Corporate equities	104,025
Mutual funds	<u>307,445</u>
Total investments	<u>\$ 446,487</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.

All of the investment in certificate of deposits and corporate equities of \$ 139,042, are exposed to custodial credit risk 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:

General Electric Corporation Common Stock    \$ 33,224

*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.

The Town's investment in corporate equities and mutual funds are not subject to interest rate risk. All of the Town's certificates of deposit investments have maturities less than one year.

*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, 2010 consist of the following (in thousands):

Real Estate			
2010	\$	230	
2009		149	
2008		129	
2007		118	
Prior		<u>122</u>	
			748
Personal Property			
2010		25	
2009		5	
2008		4	
2007		3	
Prior		<u>22</u>	
			59
Tax Liens			128
Tax Possessions			<u>21</u>
Total	\$		<u><u>956</u></u>

## 7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

## 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 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent an amount accrued for a contract for ice storm clean-up.

**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, 2010 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:

	Serial Maturities <u>Through</u>	Interest Rate(s)%	Amount Outstanding as of <u>June 30, 2010</u>
<u>Governmental Funds:</u>			
<u>Notes Payable: *</u>			
Highway equipment	09/17/10	1.7	\$ 35,000
Fire turnout gear	09/30/10	1.6	17,500
<u>Bonds Payable:</u>			
Landfill capping	05/23/24	5.95	<u>145,600</u>
Total Governmental Funds			198,100
<u>Business-Type Activities:</u>			
<u>Bonds Payable:</u>			
Water Bond - FmHA	06/04/25	4.875	88,018
Water Bond - FmHA	06/08/42	4.375	996,885
Water Bond - FmHA	12/16/43	4.5	1,219,183
Water Bond - FmHA	08/28/45	4.375	1,259,260
Water Bond - FmHA	06/12/46	4.125	<u>814,152</u>
Business-Type Activities			<u>4,377,498</u>
Total All Debt			<u>\$ 4,575,598</u>

\* These borrowings are short-term notes intended to finance these projects over the next few years. This is being accomplished by rolling over short-term notes for a lesser amount each year. The interest rate reported is the interest rate for the short-term notes issued in fiscal year 2010 and due in fiscal year 2011.

**B. Future Debt Service**

The annual payments to retire all bonds payable outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	10,400	6,188	16,588
2016 - 2020	52,000	21,658	73,658
2021 - 2024	41,600	6,186	47,786
Total	\$ 145,600	\$ 64,972	\$ 210,572

  

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	95,441	175,546	270,987
2016 - 2020	507,024	813,473	1,320,497
2021 - 2025	565,687	697,550	1,263,237
2026 - 2030	592,208	571,579	1,163,787
Thereafter	2,252,529	826,593	3,079,122
Total	\$ 4,377,498	\$ 3,827,039	\$ 8,204,537

**C. Changes in General Long-Term Liabilities**

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

	Total Balance July 1, 2009	Addition	Reduction	Total Balance June 30, 2010	Less Current Portion	Equals Long-Term Portion June 30, 2010
<u>Governmental Activities</u>						
Notes payable	\$ 77,500	\$ -	\$ (25,000)	\$ 52,500	\$ (25,000)	\$ 27,500
Bonds payable	156,000	-	(10,400)	145,600	(10,400)	135,200
Other:						
Landfill closure	54,810	-	(2,610)	52,200	(2,610)	49,590
Totals	\$ 288,310	\$ -	\$ (38,010)	\$ 250,300	\$ (38,010)	\$ 212,290
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,464,722	\$ -	\$ (87,224)	\$ 4,377,498	\$ (88,726)	\$ 4,288,772
Totals	\$ 4,464,722	\$ -	\$ (87,224)	\$ 4,377,498	\$ (88,726)	\$ 4,288,772

**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 20 years is \$ 52,200. This amount is based on what it would cost to perform all post-closure care in 2010. 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, 2010:

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	\$ 204,798
Appropriation deficits	2,827
Overlay deficits	<u>2,487</u>
Statutory (UMAS) Balance	\$ <u><u>210,112</u></u>

**15. Subsequent Events**

Debt

Subsequent to June 30, 2010, the Town has incurred the following additional debt:

<u>Anticipation Notes</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note*	\$ 15,000	1.15%	09/17/10	09/16/11
Bond anticipation note*	\$ 12,500	1.15%	09/30/10	09/30/11
State aid anticipation note	\$ 321,000	1.00%	12/22/10	03/22/11
State aid anticipation note	\$ 280,000	1.00%	03/22/11	04/28/11

\* These are rollovers of short-term notes treated as long-term debt at June 30, 2010.

**16. 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.

**17. Post-Employment Health Care and Life Insurance Benefits**

In addition to the pension benefits described in the following note, the Town provides post-employment 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 has not yet recorded *GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, which was effective (for the Town) June 30, 2010.

## 18. **Pension Plan**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers (as amended by GASB 50)*, 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, 2010, 2009, and 2008, were \$ 31,119, \$ 21,030, and \$ 28,055, respectively, which were equal to its annual required contributions for each of these years.

## 19. **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.

**20. Beginning Fund Balance Reclassification**

The Town's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	Reclassification	Fund Equity 6/30/09 (as reclassified)
Nonmajor funds	\$ 797,868	\$ 17,287	\$ 815,155
Beech Hill Road Improvements	<u>17,287</u>	<u>(17,287)</u>	<u>-</u>
Total	<u>\$ 815,155</u>	<u>\$ -</u>	<u>\$ 815,155</u>



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### 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 governmental activities, 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, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 16, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that

all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-1 and 10-2 in the accompanying schedule of findings and questioned costs to be material weaknesses.

*A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 10-1 and 10-2 to be significant deficiencies.

#### 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, noncompliance 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the schedule of findings and questioned costs as item 10-3.

We noted certain matters that we reported to management of the Town in a separate letter dated November 16, 2011.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

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  
November 16, 2011

TOWN OF BLANDFORD, MASSACHUSETTS

Schedule of Findings

For the Year Ended June 30, 2010

**Finding**

**#**

**Finding/Noncompliance**

10-1

**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:

- Property taxes, including real estate and tax liens receivable could not be reconciled to the Collector/Treasurer's detail. The variance was material and resulted in an audit opinion exception.
- Water use charges and water liens receivable could not be reconciled to the Water Department's detail since the detail list of balances outstanding could not be located. The variance was material and resulted in an audit opinion exception.
- Personal property taxes 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.
- The real estate tax commitment included amounts for water liens and septic loan betterment. Water liens and septic loan betterments should be issued on a separate commitment.

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. These variances are partly responsible for the Town's negative free cash position at June 30, 2010.

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 and help improve the Town's free cash balance.

10-2 IMPROVE CONTROLS IN THE TAX COLLECTOR'S OFFICE (MATERIAL WEAKNESS)

During our review of Tax Collector's office procedures, we noted several areas where controls should be improved.

- Improve Documentation of Cash Receipts

Receipts in cash (currency) are not coded as such on the tax receipt stubs, in the tax receipt system, or on the deposit slip. Because of the increased exposure in handling cash, it is very important that a clear audit trail exist from the time cash is accepted to the time it is deposited in the bank.

We recommend the Tax Collector's Office include a notation on the receipt stub of those payments that were made by cash and that the Office take steps to ensure currency transactions are coded as such when taxpayer accounts are entered into the receipt system. Also, the amount of currency deposited should be proven to the receipt stubs and daily receipt posting reports. This will improve controls over cash receipts and will minimize the risk of irregularities occurring and going undetected.

- Increase Frequency of Tax Collector Turnovers

During the fiscal year we observed that the average monthly cash balance in the Tax Collector's bank account was approximately \$ 234,000 and during one month reached a high of approximately \$ 558,000. The cash balance in the Tax Collector's bank account on June 30, 2010 was approximately \$ 308,000. Because no reconciliation of the account was provided, no receipt detail was available, and this balance was material, we were unable to form an opinion on the Town's cash balance at June 30, 2010.

We recommend the Tax Collector increase the frequency of turnovers to the Treasurer. This will streamline the Town's cash management and help maximize investment returns.

10-3 IMPROVE PROCEDURES FOR DOCUMENTING BID COMPLIANCE (COMPLIANCE FINDING)

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 one instance of noncompliance where \$ 6,032 was paid for road repair supplies and, therefore, three written quotes should have been obtained.

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

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.