

TOWN OF MARBLEHEAD, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Photo by Mike Porter

**For the Fiscal Year Ended
June 30, 2011**

On the Cover:

A magnificent view of the sun rising in the east from Fort Seawall, a legendary defensive headland, situated at the mouth of Marblehead Harbor.



Brown's island (*renamed Crowninshield Island*) marks the entrance to Dolliber Cove and Marblehead Little Harbor and as seen here is accessible by foot via mudflats during low tide.

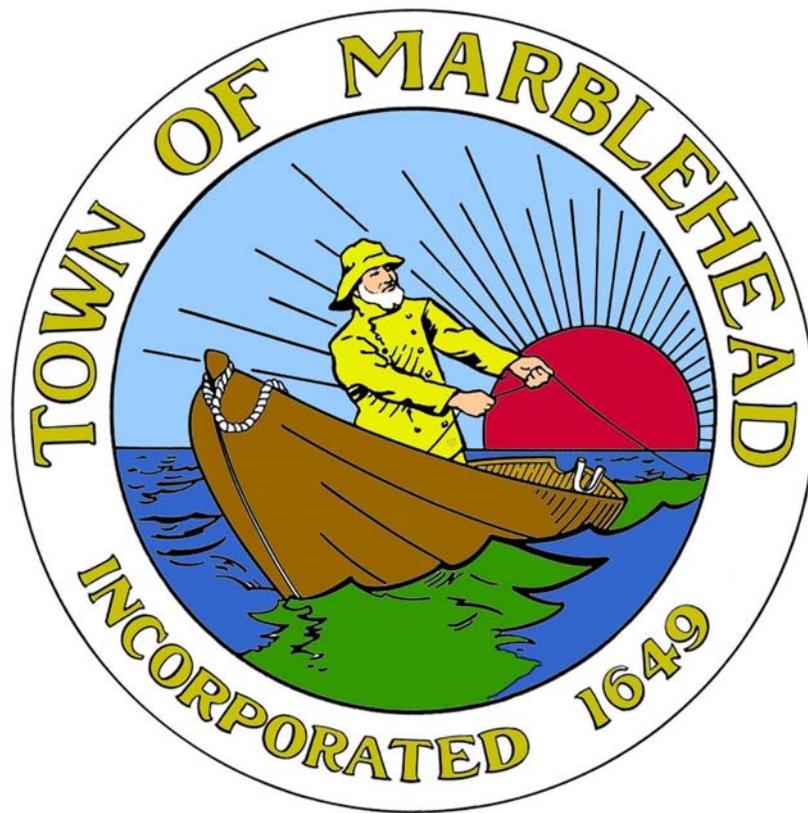
A spectacular early morning sunrise creates a breathtaking scene highlighting the Marblehead Lighthouse which overlooks the Marblehead Harbor.



A fresh fallen snow blankets the grounds and creates a tranquil scene at Waterside Cemetery in Marblehead.

Photos by Mike Porter

TOWN OF MARBLEHEAD, MASSACHUSETTS



COMPREHENSIVE
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011
Prepared by the Finance Department

TOWN OF MARBLEHEAD, MASSACHUSETTS
 Comprehensive Annual Financial Report
 Fiscal Year Ended June 30, 2011

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Introductory Section



Photo by Mike Porter

A picturesque view of Marblehead Harbor which is encompassed by a town with roots in both commercial fishing and yachting.

Introductory Section

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TOWN OF MARBLEHEAD

FINANCIAL SERVICES

www.marblehead.org/finance

John J. McGinn
Finance Director
781-631-1705

Mary Alley Building
7 Widger Road
Marblehead, MA 01945

mcginnj@marblehead.org

Letter of Transmittal

December 7, 2011

Honorable Members of the Board of Selectmen and Citizens of the Town of Marblehead, Massachusetts:

It is with pleasure that the Comprehensive Annual Financial Report of the Town of Marblehead, Massachusetts, for the fiscal year ended June 30, 2011, is presented. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report also complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34.

In addition to the fund financial information traditionally presented in the Town's financial statements, this report also includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the Town including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

The report is designed to be used by the elected and appointed officials of the Town and others who are concerned with its management and progress such as bond analysts, banking institutions and credit raters as well as residents and taxpayers of the Town of Marblehead.

This report consists of management's representations concerning the finances of the Town of Marblehead. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making those representations, management has established an internal control framework that is designed to both protect the assets of the Town from loss, theft or misuse and to allow for the compiling of sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Marblehead's financial statements have been audited by Powers & Sullivan, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Marblehead for the fiscal year ended June 30, 2011, are free of

material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Marblehead's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Marblehead was part of a broader, federally-mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Marblehead's separately issued Single Audit Report.

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

PROFILE OF THE TOWN

The Town of Marblehead, originally incorporated in 1649, is a picturesque seacoast Town steeped in history. In its early years fishing and the shoe industry were its two main sources of income. While Marblehead has been known through the years as the "Birthplace of the American Navy," in recent times the Town has also been known as one of the yachting capitals of the world. Pleasure boating is certainly a popular pastime of its residents. Visitors come from all over the world to view the original of the famous painting "The Spirit of '76" which is housed in Abbot Hall in the office of the Board of Selectmen, as well as to see the beautiful harbor crowded with sailing, fishing, lobster and pleasure boats. Another major attraction for visitors is the Town's historic district, the largest in the State, and the narrow crooked streets lined with Colonial and Victorian buildings, many of which have been placed on the National Register.

With a population of 19,808, Marblehead is located in the Greater Boston Area, 18 miles northeast of Boston, with a land area of 4.53 square miles. Marblehead is situated in eastern Massachusetts, bordered by Swampscott on the south, Salem on the southwest, and the Atlantic Ocean on the west, north, and east. Commuter rail service to North Station in Boston is convenient from the Salem or Swampscott stations and Marblehead is a member of the Massachusetts Bay Transportation Authority which provides bus service to Swampscott, Lynn and Boston.

The Town operates under a Board of Selectmen/Open Town Meeting/Town Administrator form of government. The five-member Board of Selectmen, elected annually, makes policy decisions. The Town Administrator is responsible for carrying out the policies and direction of the Board of Selectmen and for managing the day-to-day operations of the Town.

THE REPORTING ENTITY AND ITS SERVICES

The financial reporting entity (the Town) of the primary government includes all funds and activities considered a part of the Town of Marblehead. Specifically excluded are the Marblehead Housing Authority and The North Shore Regional Vocational School District since they have substantial autonomy and separate governmental entity characteristics.

The Town provides a range of municipal services normally associated with municipal government including education, public safety (police, fire and emergency medical services), recreation and parks, elder services (Council on Aging), street construction and maintenance, solid waste collection and disposal, library, cemetery, building inspection and general administrative services. The Town also operates electric, water and sewer utilities and harbor and waterfront services as enterprises.

FACTORS AFFECTING FINANCIAL CONDITION

The Town of Marblehead continues to reflect a relatively strong economic condition. While the Town's residential sales market weakened in fiscal year 2011, it did sustain its value in the most recent valuation when compared to the real estate market regionally and nationally as demonstrated by a modest 4% drop in aggregate value of taxable real property compared to the previous year.

The median family income remained significantly higher than state averages and the unemployment rate continues to be lower than the State average (5.4% vs. 7.6% for the State). The Town remains a very desirable community given its close proximity to Boston, and for its tourism, history, boating, and the quality of services provided.

Although both the regional and national real estate markets remained weak in fiscal 2011, the Town of Marblehead continued to experience a relatively strong property value base. The total taxable value of the Town decreased from \$5,249,413,281 in fiscal 2010 to \$5,031,961,071 in fiscal 2011, or a decrease of approximately 4.0%. A number of factors contributed to this relatively strong real estate market, (when compared regionally and nationally), and a stable tax base. Among these factors are the Town's unique geography, encompassing 14.2 miles of coastline, proximity to the City of Boston, and the limited amount of developable land which enhances the desirability for existing housing stock. The Town continues to set new benchmarks for value of oceanfront land, as demonstrated by the increase in the number of multimillion dollar sales of "tear down" properties replaced with new single family dwellings. In fiscal 2011, there were 186 arms length sales, compared to 171 in fiscal 2010, and marketing time has decreased from approximately 120 days to a more typical 90 days. There were only 16 bank related sales out of the nearly 8,000 improved properties in the Town, far less than the regional and national average. Current real estate sales activity indicates an even stronger FY 2012 when reviewing calendar 2010 sales which will be the basis for the upcoming 2012 assessments.

On the Town's operating side, after experiencing increases in state aid between FY05 and FY09, communities have seen decreases in FY10, FY11 and FY 12 (budgeted). The Town however, is in the position of relying primarily on property taxes (approximately 75% of the Town's general fund revenue base) to cover the increasing cost of providing services.

FINANCIAL AND MANAGEMENT POLICIES

Minimal Changes to Approved Operating Budget Required

The Town's finance committee is responsible for reviewing departmental budget requests and submits to Town Meeting an operating budget for the proposed expenditures and other financing uses for the next fiscal year. The budget, as enacted by Town Meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget can be amended during the fiscal year at Special Town Meetings or at the next Annual Town Meeting held prior to the end of the fiscal year. In FY11, no such budget amendments occurred. During the fiscal year, the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$144,000 for this purpose in fiscal 2011 and transfers of \$67,401 were made from this appropriation. This represents the smallest draw on the Town's Reserve Fund in over 30 years. State Law also allows for certain transfers between department appropriations during the last 60 days of the fiscal year if approved by both the Finance Committee and the Board of Selectmen. In Fiscal Year 2011, there

were no transfers necessary under this provision of the law. All unencumbered and unexpended appropriations lapse at fiscal year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Capital Projects Fund as well as the Sewer, Water and Harbor Enterprise Funds. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by Town Meeting for line items within departments. Typical line items are salaries, expense and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final legal judgments may exceed the level of spending authorized by majority vote at a Town Meeting.

Long-Term Financial Planning

The Town manages its financial matters in a prudent manner. This has been affirmed by its ability to maintain its AAA bond rating even through the turbulent financial period that has been experienced nationally over the past few years. The Town's financial actions are generally guided by multi-year planning tools, pay-as-you-go financing strategies for certain capital investments, long-term planning for liabilities such as its pension obligations, strategic reorganizations of certain municipal services, and establishment of reserves to alleviate volatility in departmental budgets.

The Town of Marblehead has also enhanced its revenue flexibility by establishing totally self-sufficient enterprise funds for sewer, water, electric and harbor operations. All costs related to the enterprises are funded through user fees and each enterprise pays the Town for its share of general government services. Currently, each of the enterprises avoids the issuance of new debt for capital improvements. Instead each enterprise funds its capital projects from net assets.

Increased Fund Balance in General Fund Trend Continues

The Town's management of its finances has resulted in a continued upward trend in General Fund equity. At the end of FY11, the unassigned fund balance in the General Fund increased again for the seventh consecutive year. Since FY2004, General Fund undesignated now reported as unassigned fund balance at year end has increased 335%.

Property Tax Collection Rates Remain Consistently High

The Town has consistently had a first collection rate for net property taxes due in excess of 98%. This collection rate was achieved again in FY2011.

Establishment of Energy Reserve to Manage Energy Cost Volatility

In response to volatile energy costs, the Town established an Energy Reserve beginning with its Fiscal Year 2007 operating budget. Departments with energy costs are allowed to access this reserve after they exhaust their entire departmental budget for various forms of energy (heating, electricity, and motor vehicle fuel). The use of the reserve has accomplished two important goals. First, it alleviated pressure on departmental budgets that had been historically pitting increased energy costs against other needs. Second, the reserve ensured that the monies appropriated for increased energy costs were not used for other purposes. The Town appropriated \$533,544 into the fiscal 2011 energy reserve. Of this amount \$361,953 was expended. The Town has once again appropriated \$533,580 for the energy reserve in the FY12 budget.

SIGNIFICANT EVENTS

Town's AAA Bond Rating Affirmed

In August of 2011, the Town issued Notes and Bonds for capital projects. In the process of preparing for these financings the Town was reviewed by the independent rating agency of Standard and Poor's (S&P). After careful review of the Town's finances and management practices, S&P affirmed the Town's Bond rating at AAA, their highest municipal rating.

Town Refunds Debt to Achieve Substantial Savings

In September 2011, the Town refunded approximately \$15.8 million in outstanding long-term debt remaining from a 2004 bond issue related to the construction of the High School and the Veterans Middle School. The favorable interest rate climate resulted in savings totaling \$1,291,937 over the upcoming 13 years remaining on these bonds.

Village School Reconstruction Project Completed

During FY11, the Village School Reconstruction was completed. This project focused on replacing core facility systems including heat, air circulation, wiring, roof, and window components, as well as bringing the building into accordance with accessibility and life/safety code regulations. Funding for this project came in part from the Massachusetts School Building Authority.

Successful Merger of Town Networks

In FY11, the Town completed the merger of its computer network with the previously separate police and fire computer network. This merger will result in modest cost savings through greater efficiencies and improved network security.

New Permit Software Selected

The Town determined in FY11 a need to replace the outdated software used to issue various types of building, plumbing, and electrical permits. After reviewing proposals from several different software providers, Business Management Systems, Inc. was selected. Installation of the new software and conversion of historical permit data began in late August 2011.

Equipment Purchased

The Town purchased and took delivery of several new pieces of heavy equipment in FY11. This included by department:

Waste Collection Department:	Front End Loader
Highway Department:	Street Sweeper
Drain Department:	Utility Vehicle
Water Department:	Pick-up Truck
Sewer Department:	Pick-up Truck

Results of June 14th Override Ballot

On June 14, 2011, a special election was held and four questions were presented to the voters to exclude appropriations from the limitations of proposition 2 ½. Two debt exclusion overrides were approved by the

voters. The first was for the construction of a new Glover School totaling \$25,450,000 (3,394 in favor, 2,753 opposed). The second was for the capping of the Town's old landfill, the construction of a new transfer station and the cleanup of certain properties on Stoney Brook Road totaling \$18,174,578 (3,416 in favor, 2,681 opposed). Two one-time capital improvement overrides were also presented to the voters. The first was approved for \$656,000 for Landfill Regulatory Compliance (3492 in favor, 2601 opposed). The second was not approved for \$667,793 in accessibility improvements to the Old Town House (2531 in favor, 3567 opposed).

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Marblehead for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the seventh consecutive year that the Town submitted a CAFR to the GFOA. The Town was awarded this Certificate all seven years. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

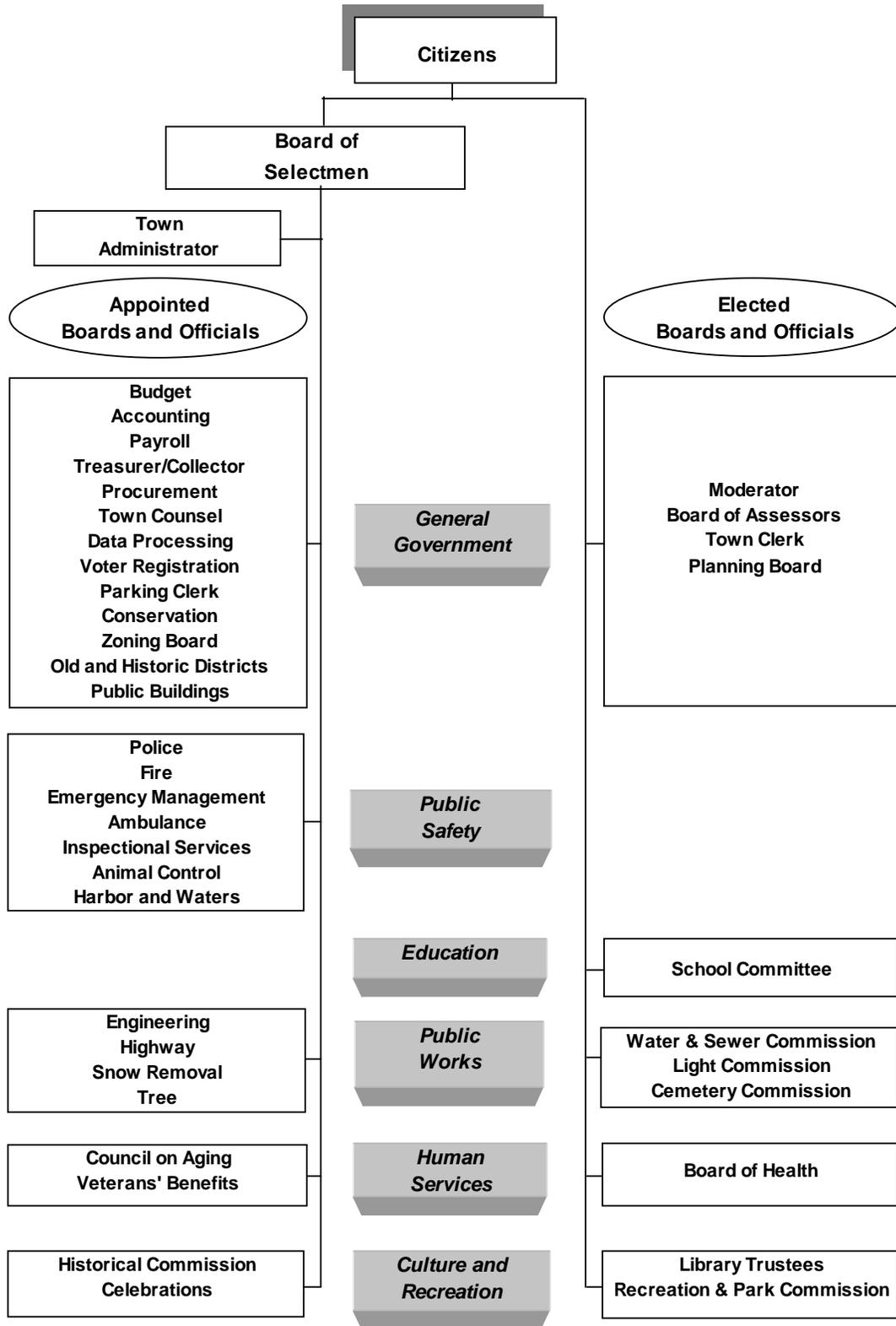
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated staff of the Financial Services Department. I would like to express my appreciation to all members of the Town's Financial Services Department who assisted and contributed to the preparation of this report. I would also like to thank Town Administrator, Anthony M. Sasso, the Board of Selectmen, the Board of Assessors, and the Finance Committee for their strong interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,



John McGinn
Finance Director

Town of Marblehead, Massachusetts Organization Chart



Town of Marblehead, Massachusetts
Principal Executive Officers

Title	Name	Manner of Selection	Term Expires
Selectmen (Chairperson)	Jackie Belf-Becker	Elected	2012
Selectmen	Harry C. Christensen, Jr.	Elected	2012
Selectmen	Judith R. Jacobi	Elected	2012
Selectmen	Bret T. Murray	Elected	2012
Selectmen	James E. Nye	Elected	2012
Town Administrator	Anthony M. Sasso	Appointed	2013
Finance Director/Town Accountant	John J. McGinn	Appointed	2013
Treasurer/Collector	Patricia K. Murray	Appointed	2012
Town Clerk	Robin A. Michaud	Elected	2013

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Marblehead Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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Financial Section



Photo by Mike Porter

A full moon glows in the distance as spectators watch from Chandler Hovey Park and the Lighthouse located at the entrance to Marblehead Harbor.

Financial Section

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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Marblehead, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marblehead, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Marblehead Contributory Retirement System and the Marblehead Municipal Light Department which are as of and for the fiscal year ended December 31, 2010), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Marblehead, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marblehead Municipal Light Department, which is both a major fund and 45%, 43%, and 65%, respectively, of the assets, net assets, and revenues of the business-type activities, for the fiscal year ended December 31, 2010. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in these financial statements is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marblehead, Massachusetts, as of June 30, 2011 (except for the Marblehead Contributory Retirement System and the Marblehead Municipal Light Department which are as of and for the year ended December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the Town of Marblehead, Massachusetts' internal control over financial reporting and 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, 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 read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund statements and schedules, as listed in the table of contents, are presented for the purpose of supplementary analysis and are not a required part of the basic financial statements of the Town of Marblehead, Massachusetts. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Management's discussion and analysis, located on the following pages, and the general fund schedule of revenues, expenditures and changes in fund balance-budgetary basis, retirement system schedule of funding progress, retirement system schedule of employer contributions, other postemployment benefit plan schedule of funding progress and employer contributions, and other postemployment benefit plan actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Powers & Sullivan LLC

December 7, 2011

Management's Discussion and Analysis

As management of the Town of Marblehead, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented in this report in conjunction with the information that we have provided in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Marblehead's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Town of Marblehead adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided as required supplementary information for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer, water, harbor and municipal light department activities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for Town appropriations used to fund Workers' Compensation Claims. Prior to fiscal year 2009, the Town also used internal service funds to account for risk financing activities related to health insurance. In fiscal year 2009, the Town changed to a premium based insurance plan for health insurance. In addition to Workers' Compensation Claims, the internal service fund has been used to account for run-out claims associated with the previous self-insured health insurance plan, as well as premium payments under the new plan. Because these services predominantly benefit the governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-wide Financial Analysis

At the end of the current fiscal year, the Town is able to report positive balances in the all except for the unrestricted category of governmental net assets. Overall the net assets of the primary government decreased by \$3.6 million during fiscal year 2011. This was comprised of a \$5.6 million decrease in governmental net assets and a \$2 million increase in business-type net assets.

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the governmental activities, Marblehead's assets exceeded liabilities by \$74 million, at the close of fiscal year 2011.

	Governmental Activities	
	2011	2010
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 28,647,123	\$ 32,400,110
Capital assets, net of accumulated depreciation....	107,873,518	89,697,192
Capital assets, not being depreciated.....	5,878,180	22,075,495
Total assets.....	<u>142,398,821</u>	<u>144,172,797</u>
Liabilities:		
Current liabilities (excluding debt).....	7,863,936	5,561,592
Noncurrent liabilities (excluding debt).....	18,151,604	15,671,601
Current debt.....	5,538,380	3,065,388
Noncurrent debt.....	36,866,891	40,275,434
Total liabilities.....	<u>68,420,811</u>	<u>64,574,015</u>
Net Assets:		
Invested in capital assets, net of related debt.....	71,782,028	70,685,450
Restricted.....	9,048,458	9,422,889
Unrestricted.....	(6,852,476)	(509,557)
Total net assets.....	<u>\$ 73,978,010</u>	<u>\$ 79,598,782</u>
Program revenues:		
Charges for services.....	\$ 4,486,912	\$ 4,586,148
Operating grants and contributions.....	15,253,787	15,041,092
Capital grants and contributions.....	761,615	3,817,694
General revenues:		
Real estate and personal property taxes.....	51,217,033	50,046,317
Motor vehicle excise taxes.....	2,752,897	2,656,948
Nonrestricted grants.....	1,110,208	1,164,113
Unrestricted investment income.....	389,792	547,427
Penalties and interest on taxes.....	226,937	192,715
Total revenues.....	<u>76,199,181</u>	<u>78,052,454</u>
Expenses:		
General government.....	3,764,556	3,763,970
Public safety.....	10,586,017	10,288,405
Education.....	53,942,639	52,081,576
Public works.....	6,214,732	6,331,557
Landfill closure.....	2,314,578	1,800,000
Human services.....	1,150,910	1,120,478
Culture and recreation.....	3,111,617	3,019,415
Interest.....	1,319,979	899,311
Total expenses.....	<u>82,405,028</u>	<u>79,304,712</u>
Excess (Deficiency) before transfers.....	(6,205,847)	(1,252,258)
Transfers.....	<u>585,075</u>	<u>629,309</u>
Change in net assets.....	<u>\$ (5,620,772)</u>	<u>\$ (622,949)</u>

Governmental net assets of \$71.8 million reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, machinery, and equipment and infrastructure); less any related debt

used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$9 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* has a year end deficit balance of \$6.9 million. The primary reason for this deficit balance in net assets is the recognition of other postemployment benefit liability of \$11.7 million, which was the result of the implementation of Government Auditing Standards Board (GASB) Statement 45. This statement required the Town to obtain an actuarial valuation of the Town's liability to pay other postemployment benefits to current employees and retirees. The Town is allowed to amortize the liability, which totaled \$139 million, over 30 years. Since there is no legal obligation to fund the liability at this time, the Town has opted to continue to fund other postemployment benefits on a pay-as-you-go basis. As a result, the Town is required to record the difference between the current year pay-as-you-go cost and the current year actuarial determined cost as a liability in the full accrual financial statements. This difference totaled \$4.2 million for fiscal year 2011. Fiscal year 2011 is the Town's third year of amortizing this liability.

Other items having an impact on the change in net assets include an increase of \$2.3 million in the estimated costs for the closure and postclosure care for the landfill and additional liabilities identified during fiscal year 2011 for environmental remediation for properties located on and near Stoney Brook Road. During fiscal year 2011, the Town voted to authorize the Treasurer to borrow a total of \$18.2 million to address these liabilities and for the construction of a new transfer station.

The governmental expenses totaled \$82.4 million of which \$20.5 million (25%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$55.7 million, primarily coming from property taxes, motor vehicle and other excise taxes, and non-restricted state aid.

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$50.2 million at the close of fiscal year 2011.

Business-type net assets of \$34.9 million (70%) represent investments in capital assets. The remaining \$15.3 million (30%) is available to be used for the ongoing operation of the Town's Water, Sewer, Harbor and Municipal Light activities. There was an increase of \$2 million in total net assets reported in the business-type activities.

The Town's Sewer, Water, and Harbor funds have a policy of appropriating available funds at the end of each fiscal year to fund capital expenses in lieu of issuing long-term debt. As a result, the net assets remain relatively consistent from year to year and there is no debt reported in the Town's business-type activities.

	Business-type Activities	
	2011	2010
Assets:		
Current assets.....	\$ 19,146,912	\$ 17,603,314
Capital assets, net of accumulated depreciation.....	32,613,203	31,458,581
Capital assets, not being depreciated.....	<u>2,265,546</u>	<u>2,252,246</u>
Total assets.....	<u>54,025,661</u>	<u>51,314,141</u>
Liabilities:		
Current liabilities (excluding debt).....	2,873,718	2,563,273
Noncurrent liabilities (excluding debt).....	<u>966,739</u>	<u>593,911</u>
Total liabilities.....	<u>3,840,457</u>	<u>3,157,184</u>
Net Assets:		
Invested in capital assets.....	34,878,749	33,710,827
Unrestricted.....	<u>15,306,455</u>	<u>14,446,130</u>
Total net assets.....	<u>\$ 50,185,204</u>	<u>\$ 48,156,957</u>

The Sewer Enterprise Fund's net assets totaled \$12.1 million at year end; an increase of \$358,000 from the prior year. This balance is approximately 3.5 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for sewer services and approximately 58% of the Fund's expenses relate to the annual assessment paid to the South Essex Sewerage District.

The Water Enterprise Fund's net assets totaled \$12.1 million at year end; an increase of \$557,000 from the prior year. This balance is approximately 3.9 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for water service and approximately 58% of the operating expenses consist of assessments paid to the Massachusetts Water Resource Authority.

The Harbor Enterprise Fund's net assets totaled \$4.3 million at year end; an increase of \$46,000 from the prior year. The balance in the Harbor Enterprise Fund has remained consistent over the past several years. Revenues in this fund consist of a combination of charges for services and boat excise taxes assessed.

The Municipal Light Enterprise Fund's net assets totaled \$21.7 million at year end; an increase of \$1.1 million. The majority of the revenue in this fund consists of charges for services and 85% of the expenses relate to operational costs.

	Business-type Activities	
	2011	2010
	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services - Water.....	\$ 3,730,846	\$ 3,251,067
Charges for services - Sewer.....	3,904,213	3,694,883
Charges for services - Municipal Light.....	15,160,793	14,233,656
Charges for services - Harbor.....	632,242	591,969
Operating grants.....	17,260	22,634
General revenues:		
Boat excise.....	136,513	140,873
Unrestricted investment income.....	64,263	92,386
Total revenues.....	<u>23,646,130</u>	<u>22,027,468</u>
Expenses:		
Water.....	3,114,228	3,023,598
Sewer.....	3,481,486	3,404,568
Municipal Light.....	13,797,177	13,678,068
Harbor.....	639,917	581,573
Total expenses.....	<u>21,032,808</u>	<u>20,687,807</u>
Excess before transfers.....	2,613,322	1,339,661
Transfers.....	<u>(585,075)</u>	<u>(629,309)</u>
Change in net assets.....	\$ <u>2,028,247</u>	\$ <u>710,352</u>

Financial Analysis of the Government's Funds

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

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

Fiscal year 2011 was the Town's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23.8 million, an increase of \$147,000 from the prior year.

The General Fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$6.3 million, while total fund balance was \$11.4 million. Of the assigned fund balance, \$4.6 million has been allocated to balance the fiscal year 2012 budget. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9% of total general fund expenditures, while total fund balance represents 17% of that same amount.

The General Fund increased by \$1.6 million. This increase is primarily due to a combination of reasonable spending, higher than anticipated revenue collections and lower than anticipated group insurance.

The Capital Projects Fund is used to account for the financial activities associated with major capital projects that have been authorized by Town Meeting and approved by the voters to be funded by the proceeds of bond sales. The Town's major capital project during fiscal year 2011 has been the Village School Renovation project. The renovation began in fiscal year 2009 and has continued through fiscal 2011 and is essentially completed as of June 30, 2011. In May 2008, Town Meeting authorized \$21.8 million for this project. The capital projects fund had a net decrease of approximately \$1.4 million during fiscal year 2011. This net decrease was primarily due to the recognition of \$1.7 million in bond proceeds; \$747,000 in MSBA grant payments; and capital expenditures of approximately \$3.8 million, of which most related to the Village School Renovation project. During fiscal year 2011, the Town meeting approved \$25,450,000 for the renovation of the Glover School. The Town is currently in the design phase of this project.

The Public Funds Major Fund is used to account for contributions and earnings to support the government, where the principal portion is non-expendable. This fund had a net decrease of \$58,000 during fiscal year 2011. Revenues consisted of investment income as well as contributions, and expenditures, totaling \$129,000, were for general government, public works, human services, and culture and recreational purposes. The largest portion of this fund, \$3.4 million, is permanently reserved for investment purposes.

General Fund Budgetary Highlights

The Town experienced a \$2.5 million surplus of actual revenues compared to budgeted revenues. Surpluses in motor vehicle excises taxes, charges for services, licenses and permits, and intergovernmental revenue totaling \$2 million were primarily due to conservative budget estimates. Additionally, investment income came in higher than budgeted by \$126,000 due to the Town pursuing the highest interest rates available on accounts and conservative budget estimates.

Actual expenditures ended the fiscal year approximately \$3 million under budget. The most notable is the group insurance appropriation, which ended the fiscal year \$2.2 under budget. This was the result of certain retiree Medicare and employee health insurance costs being charged to the Medex and Medical Claims funds respectively, which is being reported as an internal service funds. The Town transferred from a self-insured program to a premium based plan beginning in fiscal year 2009. Since 2009, the internal service fund has continued to pay run off claims and revenue credits due. The fund is in the process of being closed out and as surplus balances are determined they are used to fund current costs. Additionally, actual health care costs came in lower than anticipated, further contributing to a positive budget to actual variance. The positive variance under public safety is the result of employee turnover and closely monitoring employee related expenditures including salaries and overtime. In addition, the Town had remaining reserves of approximately \$77,000.

In addition, the Town had positive balances remaining for the energy reserve and property and liability insurance due to conservative budgeting and the ongoing review of insurance policies to minimize costs to the Town.

The only other changes between the original and final budget for the Town consisted of reserve fund and energy reserve fund transfers within appropriation lines, and a transfer from the education budget to fund a deficit within the school lunch fund.

Capital Asset and Debt Administration

Capital assets. In conjunction with the operating budget, departments with proposed capital budgets submit them to the Finance Committee and if large enough, to the Capital Planning Committee. These committees are responsible for reviewing the proposed capital budgets and reporting to the Annual Town Meeting. The major capital asset activity of the governmental activities during the year consisted of increases in the Village School Reconstruction project totaling \$3.5 million with the remaining balance related to the Village School work in progress moved to building improvements during the fiscal year as the project was essentially completed. In addition the Town had upgrades to infrastructure totaling \$879,000. Of the \$879,000, \$243,000 was related to drain improvements and \$636,000 was used for street and sidewalk paving. Other capital asset activity consisted of library circulation of \$137,000 and school copiers of \$243,000.

Capital additions of the business-type activities consisted of upgrades to infrastructure and purchases of new equipment in the Sewer and Water activities of approximately \$745,000 and \$1.4 million, respectively; the purchase of equipment in the Harbor activities of \$75,000; and Municipal Light upgrades to plant and equipment of approximately \$965,000.

Debt administration. Outstanding long-term debt of the general government, as of June 30, 2011, totaled \$41.1 million, of which \$35.4 million is related to school projects and \$5.7 million is for the causeway seawall.

Please refer to the notes 5, 6 and 7 of the basic financial statements for further discussion of the Town's major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Marblehead's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Mary Alley Building, 7 Widger Road, Marblehead, Massachusetts 01945.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 29,002,605	\$ 9,854,231	\$ 38,856,836
Investments.....	1,029,350	-	1,029,350
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	523,655	-	523,655
Real estate tax deferrals.....	689,444	-	689,444
Tax liens.....	321,922	-	321,922
Motor vehicle excise and boat taxes.....	180,567	41,236	221,803
User fees.....	-	3,328,681	3,328,681
Interest and dividends.....	45,730	-	45,730
Departmental and other.....	57,343	-	57,343
Intergovernmental.....	805,845	-	805,845
Tax foreclosures.....	27,359	-	27,359
Internal balances.....	(4,062,622)	3,309,675	(752,947)
Inventory.....	-	91,717	91,717
Investment in joint venture.....	-	1,280,055	1,280,055
Working capital deposit.....	25,925	-	25,925
Other assets.....	-	1,241,317	1,241,317
Total current assets.....	28,647,123	19,146,912	47,794,035
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	107,873,518	32,613,203	140,486,721
Capital assets, not being depreciated.....	5,878,180	2,265,546	8,143,726
Total noncurrent assets.....	113,751,698	34,878,749	148,630,447
TOTAL ASSETS.....	142,398,821	54,025,661	196,424,482
LIABILITIES			
CURRENT:			
Warrants payable.....	1,184,802	1,589,362	2,774,164
Accrued liabilities.....	32,129	-	32,129
Tax refunds payable.....	158,043	-	158,043
Accrued interest.....	564,507	-	564,507
Payroll withholdings.....	645,818	-	645,818
Due to Agency Fund.....	52,123	-	52,123
Other liabilities.....	113,263	1,084,208	1,197,471
Customer deposits payable.....	-	28,193	28,193
Landfill closure and remediation.....	3,983,000	-	3,983,000
Compensated absences.....	847,620	171,955	1,019,575
Workers' compensation.....	282,631	-	282,631
Bonds payable.....	5,538,380	-	5,538,380
Total current liabilities.....	13,402,316	2,873,718	16,276,034
NONCURRENT:			
Landfill closure and remediation.....	5,931,578	-	5,931,578
Compensated absences.....	148,590	66,975	215,565
Workers' compensation.....	404,488	-	404,488
Other postemployment benefits.....	11,666,948	899,764	12,566,712
Bonds payable.....	36,866,891	-	36,866,891
Total noncurrent liabilities.....	55,018,495	966,739	55,985,234
TOTAL LIABILITIES.....	68,420,811	3,840,457	72,261,268
NET ASSETS			
Invested in capital assets, net of related debt.....	71,782,028	34,878,749	106,660,777
Restricted for:			
Permanent funds:			
Expendable.....	1,331,303	-	1,331,303
Nonexpendable.....	3,410,413	-	3,410,413
Other purposes:			
Gifts and grants.....	4,306,742	-	4,306,742
Unrestricted.....	(6,852,476)	15,306,455	8,453,979
TOTAL NET ASSETS.....	\$ 73,978,010	\$ 50,185,204	\$ 124,163,214

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 3,764,556	\$ 409,166	\$ 396,418	\$ -	\$ (2,958,972)
Public safety.....	10,586,017	994,204	236,245	-	(9,355,568)
Education.....	53,942,639	1,870,151	14,247,427	306,819	(37,518,242)
Public works.....	6,214,732	668,395	13,515	454,796	(5,078,026)
Landfill closure.....	2,314,578	-	-	-	(2,314,578)
Human services.....	1,150,910	187,937	141,286	-	(821,687)
Culture and recreation.....	3,111,617	357,059	218,896	-	(2,535,662)
Interest.....	1,319,979	-	-	-	(1,319,979)
Total Governmental Activities.....	82,405,028	4,486,912	15,253,787	761,615	(61,902,714)
<i>Business-Type Activities:</i>					
Sewer.....	3,481,486	3,904,213	14,839	-	437,566
Water.....	3,114,228	3,730,846	-	-	616,618
Municipal Light.....	13,797,177	15,160,793	-	-	1,363,616
Harbor.....	639,917	632,242	2,421	-	(5,254)
Total Business-Type Activities.....	21,032,808	23,428,094	17,260	-	2,412,546
Total Primary Government.....	\$ 103,437,836	\$ 27,915,006	\$ 15,271,047	\$ 761,615	\$ (59,490,168)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (61,902,714)	\$ 2,412,546	\$ (59,490,168)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	51,217,033	-	51,217,033
Motor vehicle excise taxes.....	2,752,897	-	2,752,897
Boat excise taxes.....	-	136,513	136,513
Penalties and interest on taxes.....	226,937	-	226,937
Grants and contributions not restricted to specific programs.....	1,110,208	-	1,110,208
Unrestricted investment income.....	389,792	64,263	454,055
<i>Transfers, net</i>	<u>585,075</u>	<u>(585,075)</u>	<u>-</u>
Total general revenues and transfers.....	<u>56,281,942</u>	<u>(384,299)</u>	<u>55,897,643</u>
Change in net assets.....	(5,620,772)	2,028,247	(3,592,525)
<i>Net Assets:</i>			
Beginning of year.....	<u>79,598,782</u>	<u>48,156,957</u>	<u>127,755,739</u>
End of year.....	\$ <u><u>73,978,010</u></u>	\$ <u><u>50,185,204</u></u>	\$ <u><u>124,163,214</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	General	Capital Projects Fund	Public Funds	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 16,331,183	\$ 498,883	\$ 3,729,843	\$ 7,340,899	\$ 27,900,808
Investments.....	-	-	1,029,350	-	1,029,350
Receivables, net of uncollectibles:					
Property taxes.....	523,655	-	-	-	523,655
Real estate tax deferrals.....	689,444	-	-	-	689,444
Tax liens.....	321,922	-	-	-	321,922
Motor vehicle excise taxes.....	180,567	-	-	-	180,567
Interest and dividends.....	31,236	-	14,494	-	45,730
Departmental and other.....	10,523	-	-	46,820	57,343
Intergovernmental.....	16,282	-	-	789,563	805,845
Due from nonmajor governmental funds.....	315,054	-	-	-	315,054
Working capital deposit.....	-	-	-	10,000	10,000
Tax foreclosures.....	27,359	-	-	-	27,359
TOTAL ASSETS.....	\$ 18,447,225	\$ 498,883	\$ 4,773,687	\$ 8,187,282	\$ 31,907,077
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 705,465	\$ 63,282	\$ 31,971	\$ 357,279	\$ 1,157,997
Accrued payroll and amounts withheld.....	645,818	-	-	-	645,818
Due to General Fund.....	-	-	-	315,054	315,054
Due to Agency Fund.....	52,123	-	-	-	52,123
Due to Municipal Light Fund.....	4,062,622	-	-	-	4,062,622
Other liabilities.....	113,263	-	-	-	113,263
Deferred revenues.....	1,330,928	-	-	269,007	1,599,935
Tax refunds payable.....	158,043	-	-	-	158,043
TOTAL LIABILITIES.....	7,068,262	63,282	31,971	941,340	8,104,855
FUND BALANCES:					
Nonspendable.....	-	-	3,379,232	-	3,379,232
Restricted.....	-	435,601	1,362,484	7,245,942	9,044,027
Assigned.....	5,097,591	-	-	-	5,097,591
Unassigned.....	6,281,372	-	-	-	6,281,372
TOTAL FUND BALANCES.....	11,378,963	435,601	4,741,716	7,245,942	23,802,222
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 18,447,225	\$ 498,883	\$ 4,773,687	\$ 8,187,282	\$ 31,907,077

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances.....	\$	23,802,222
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		113,751,698
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		1,599,935
Internal service funds are used by management to account for health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		371,669
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(564,507)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Landfill closure.....	(9,914,578)	
Bonds and notes payable.....	(42,405,271)	
Compensated absences.....	(996,210)	
Other postemployment benefits.....	<u>(11,666,948)</u>	
Net effect of reporting long-term liabilities.....		<u>(64,983,007)</u>
Net assets of governmental activities.....	\$	<u>73,978,010</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	Capital Projects Fund	Public Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes.....	\$ 51,170,197	\$ -	\$ -	\$ -	\$ 51,170,197
Motor vehicle excise taxes.....	2,757,607	-	-	-	2,757,607
Penalties and interest on taxes.....	226,937	-	-	-	226,937
Charges for services.....	717,430	-	-	2,267,566	2,984,996
Licenses and permits.....	729,262	-	-	-	729,262
Fines and forfeitures.....	141,460	-	-	400	141,860
Intergovernmental.....	12,990,002	747,231	-	3,545,034	17,282,267
Departmental and other.....	-	-	-	317,306	317,306
Contributions.....	-	-	77,167	384,389	461,556
Investment income.....	225,757	-	44,953	111,619	382,329
Miscellaneous.....	48,064	-	-	280,936	329,000
TOTAL REVENUES.....	69,006,716	747,231	122,120	6,907,250	76,783,317
EXPENDITURES:					
Current:					
General government.....	1,990,959	-	40,332	249,709	2,281,000
Public safety.....	6,607,625	-	-	398,186	7,005,811
Education.....	28,690,495	3,655,686	-	4,922,557	37,268,738
Public works.....	4,823,867	96,117	6,452	905,633	5,832,069
Human services.....	465,864	-	1,766	337,867	805,497
Culture and recreation.....	1,764,220	-	80,496	450,290	2,295,006
Pension benefits.....	8,333,338	-	-	-	8,333,338
Property and liability insurance.....	223,932	-	-	-	223,932
Employee benefits.....	8,785,704	-	-	460	8,786,164
State and county charges.....	2,188,061	-	-	-	2,188,061
Debt service:					
Principal.....	2,925,000	83,000	-	-	3,008,000
Interest.....	1,444,950	-	-	-	1,444,950
TOTAL EXPENDITURES.....	68,244,015	3,834,803	129,046	7,264,702	79,472,566
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	762,701	(3,087,572)	(6,926)	(357,452)	(2,689,249)
OTHER FINANCING SOURCES (USES):					
Issuance of debt.....	-	1,650,000	-	-	1,650,000
Issuance of refunding bonds.....	13,682,000	-	-	-	13,682,000
Premium from issuance of debt.....	-	-	-	600,790	600,790
Payments of current refunded debt.....	(13,682,000)	-	-	-	(13,682,000)
Transfers in.....	972,238	2,499,251	-	85,829	3,557,318
Transfers out.....	(145,000)	(2,439,251)	(50,829)	(337,163)	(2,972,243)
TOTAL OTHER FINANCING SOURCES (USES).....	827,238	1,710,000	(50,829)	349,456	2,835,865
NET CHANGE IN FUND BALANCES.....	1,589,939	(1,377,572)	(57,755)	(7,996)	146,616
FUND BALANCES AT BEGINNING OF YEAR.....	9,789,024	1,813,173	4,799,471	7,253,938	23,655,606
FUND BALANCES AT END OF YEAR.....	\$ 11,378,963	\$ 435,601	\$ 4,741,716	\$ 7,245,942	\$ 23,802,222

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds..... \$ 146,616

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

Capital outlay.....	6,187,452
Depreciation expense.....	<u>(4,208,441)</u>

Net effect of reporting capital assets..... 1,979,011

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... (603,439)

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

Issuance of debt.....	(1,650,000)
Issuance of refunding bonds.....	13,682,000
Payments of current refunded debt.....	(13,682,000)
Premiums from issuance of debt.....	(479,837)
Amortization of bond premiums.....	57,388
Debt service principal payments.....	<u>3,008,000</u>

Net effect of reporting long-term debt..... 935,551

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

Net change in compensated absences accrual.....	19,542
Net change in landfill liability accrual.....	(2,314,578)
Net change in accrued interest on long-term debt.....	16,570
Net change in other postemployment benefits.....	<u>(4,238,867)</u>

Net effect of recording long-term liabilities..... (6,517,333)

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

The net activity of internal service funds is reported with Governmental Activities..... (1,561,178)

Change in net assets of governmental activities..... \$ (5,620,772)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2010)	Total	
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 1,646,091	\$ 2,152,887	\$ 944,970	\$ 5,110,283	\$ 9,854,231	\$ 1,101,797
Receivables, net of allowance for uncollectibles:						
Boat excise.....	-	-	41,236	-	41,236	-
User fees.....	845,950	638,802	4,804	1,839,125	3,328,681	-
Due from other funds.....	-	-	-	3,309,675	3,309,675	-
Inventory.....	-	-	-	91,717	91,717	-
Investment in joint venture.....	1,280,055	-	-	-	1,280,055	-
Working capital deposit.....	-	-	-	-	-	15,925
Other assets.....	-	-	-	1,241,317	1,241,317	-
Total current assets.....	3,772,096	2,791,689	991,010	11,592,117	19,146,912	1,117,722
NONCURRENT:						
Capital assets, net of accumulated depreciation.....	8,625,945	9,774,425	1,555,069	12,657,764	32,613,203	-
Capital assets, not being depreciated.....	115,466	49,427	2,048,557	52,096	2,265,546	-
Total noncurrent assets.....	8,741,411	9,823,852	3,603,626	12,709,860	34,878,749	-
TOTAL ASSETS.....	12,513,507	12,615,541	4,594,636	24,301,977	54,025,661	1,117,722
LIABILITIES						
CURRENT:						
Warrants payable.....	170,942	304,038	24,066	1,090,316	1,589,362	26,805
Accrued liabilities.....	-	-	-	-	-	32,129
Compensated absences.....	30,683	36,059	18,810	86,403	171,955	-
Other liabilities.....	-	-	184,208	900,000	1,084,208	-
Customer deposits payable.....	-	7,123	-	21,070	28,193	-
Workers' compensation.....	-	-	-	-	-	282,631
Total current liabilities.....	201,625	347,220	227,084	2,097,789	2,873,718	341,565
NONCURRENT:						
Compensated absences.....	10,637	20,501	3,283	32,554	66,975	-
Workers' compensation.....	-	-	-	-	-	404,488
Other postemployment benefits.....	209,756	149,100	67,526	473,382	899,764	-
Total noncurrent liabilities.....	220,393	169,601	70,809	505,936	966,739	404,488
TOTAL LIABILITIES.....	422,018	516,821	297,893	2,603,725	3,840,457	746,053
NET ASSETS						
Invested in capital assets.....	8,741,411	9,823,852	3,603,626	12,709,860	34,878,749	-
Unrestricted.....	3,350,078	2,274,868	693,117	8,988,392	15,306,455	371,669
TOTAL NET ASSETS.....	\$ 12,091,489	\$ 12,098,720	\$ 4,296,743	\$ 21,698,252	\$ 50,185,204	\$ 371,669

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2010)	Total	
OPERATING REVENUES:						
Charges for services.....	\$ 3,896,466	\$ 3,723,341	\$ 631,549	\$ 15,160,793	\$ 23,412,149	\$ 274,430
Licenses and permits.....	7,650	-	-	-	7,650	-
Miscellaneous.....	97	7,505	693	-	8,295	-
TOTAL OPERATING REVENUES.....	3,904,213	3,730,846	632,242	15,160,793	23,428,094	274,430
OPERATING EXPENSES:						
Cost of services and administration.....	510,141	299,709	251,310	11,670,376	12,731,536	-
Cost of interfund services provided.....	-	-	-	-	-	1,854,911
Personal services.....	570,894	659,514	297,546	900,524	2,428,478	-
Operating assessments.....	2,022,848	1,805,608	-	-	3,828,456	-
Depreciation.....	377,603	349,397	91,061	1,226,277	2,044,338	-
TOTAL OPERATING EXPENSES.....	3,481,486	3,114,228	639,917	13,797,177	21,032,808	1,854,911
OPERATING INCOME (LOSS).....	422,727	616,618	(7,675)	1,363,616	2,395,286	(1,580,481)
NONOPERATING REVENUES (EXPENSES):						
Boat excise.....	-	-	136,513	-	136,513	-
Investment income.....	8,519	16,302	5,597	33,845	64,263	19,303
Intergovernmental assessments.....	14,839	-	2,421	-	17,260	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	23,358	16,302	144,531	33,845	218,036	19,303
INCOME (LOSS) BEFORE TRANSFERS.....	446,085	632,920	136,856	1,397,461	2,613,322	(1,561,178)
TRANSFERS:						
Transfers out.....	(88,142)	(75,897)	(91,036)	(330,000)	(585,075)	-
CHANGE IN NET ASSETS.....	357,943	557,023	45,820	1,067,461	2,028,247	(1,561,178)
NET ASSETS AT BEGINNING OF YEAR.....	11,733,546	11,541,697	4,250,923	20,630,791	48,156,957	1,932,847
NET ASSETS AT END OF YEAR.....	\$ 12,091,489	\$ 12,098,720	\$ 4,296,743	\$ 21,698,252	\$ 50,185,204	\$ 371,669

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2010)	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>						
Receipts from customers and users.....	\$ 3,836,711	\$ 3,684,915	\$ 634,301	\$ 14,627,773	\$ 22,783,700	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	274,430
Payments to vendors.....	(2,638,674)	(2,105,317)	(243,810)	(11,775,034)	(16,762,835)	(1,873,229)
Payments to employees.....	(468,678)	(572,027)	(260,675)	(770,883)	(2,072,263)	-
NET CASH FROM OPERATING ACTIVITIES.....	729,359	1,007,571	129,816	2,081,856	3,948,602	(1,598,799)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>						
Transfers out.....	(88,142)	(75,897)	(91,036)	(330,000)	(585,075)	-
Advances for restricted purposes.....	-	-	-	(901,337)	(901,337)	-
Boat excise.....	-	-	131,135	-	131,135	-
Intergovernmental assessments.....	14,839	-	2,421	-	17,260	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(73,303)	(75,897)	42,520	(1,231,337)	(1,338,017)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>						
Acquisition and construction of capital assets.....	(597,927)	(1,144,053)	(74,890)	(964,648)	(2,781,518)	-
Interest expense.....	-	-	(94)	-	(94)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(597,927)	(1,144,053)	(74,984)	(964,648)	(2,781,612)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>						
Investment income.....	8,519	16,302	5,597	33,845	64,263	19,303
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	66,648	(196,077)	102,949	(80,284)	(106,764)	(1,579,496)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR....	1,579,443	2,348,964	842,021	5,190,567	9,960,995	2,681,293
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,646,091	\$ 2,152,887	\$ 944,970	\$ 5,110,283	\$ 9,854,231	\$ 1,101,797
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>						
Operating income (loss).....	\$ 422,727	\$ 616,618	\$ (7,675)	\$ 1,363,616	\$ 2,395,286	\$ (1,580,481)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	377,603	349,397	91,061	1,226,277	2,044,338	-
Changes in assets and liabilities:						
User fees.....	(67,502)	(45,931)	2,059	(537,471)	(648,845)	-
Inventory.....	-	-	-	(12,987)	(12,987)	-
Investment in joint venture.....	(105,685)	-	-	-	(105,685)	-
Working capital deposit.....	-	-	-	-	-	66,791
Other assets.....	-	-	-	23,870	23,870	-
Warrants payable.....	-	-	7,795	(115,541)	(107,746)	26,516
Accrued liabilities.....	-	-	-	-	-	(96,388)
Liabilities due depositors.....	-	-	-	4,451	4,451	-
Other liabilities.....	-	-	(295)	-	(295)	-
Accrued compensated absences.....	(7,804)	13,799	5,286	(39,079)	(27,798)	-
Workers' compensation.....	-	2,759	-	-	2,759	(15,237)
Other postemployment benefits.....	110,020	70,929	31,585	168,720	381,254	-
Total adjustments.....	306,632	390,953	137,491	718,240	1,553,316	(18,318)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 729,359	\$ 1,007,571	\$ 129,816	\$ 2,081,856	\$ 3,948,602	\$ (1,598,799)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 95,938	\$ 3,400,904	\$ 152,309
Investments - external investment pool.....	74,939,241	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	175	-
Intergovernmental.....	1,172,848	-	-
Due from other funds.....	-	-	52,123
Capital assets, net of accumulated depreciation.....	-	46,517	-
Capital assets, not being depreciated.....	-	2,045	-
TOTAL ASSETS.....	76,208,027	3,449,641	204,432
LIABILITIES			
Warrants payable.....	960	2,358	36
Liabilities due depositors.....	-	-	204,396
Other Liabilities.....	-	175	-
TOTAL LIABILITIES.....	960	2,533	204,432
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 76,207,067	\$ 3,447,108	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 2,383,353	\$ -
Plan members.....	1,457,238	-
Private donations.....	-	57,178
Total contributions.....	3,840,591	57,178
Net investment income (loss):		
Net change in fair value of investments.....	7,144,384	-
Investment income.....	2,028,983	22,577
Net investment income (loss).....	9,173,367	22,577
Intergovernmental.....	155,749	-
Transfers from other systems.....	168,033	-
TOTAL ADDITIONS.....	13,337,740	79,755
DEDUCTIONS:		
Administration.....	469,452	81,040
Depreciation.....	-	5,011
Transfers to other systems.....	81,877	-
Retirement benefits and refunds.....	6,901,052	-
Educational scholarships.....	-	19,060
TOTAL DEDUCTIONS.....	7,452,381	105,111
CHANGE IN NET ASSETS.....	5,885,359	(25,356)
NET ASSETS AT BEGINNING OF YEAR.....	70,321,708	3,472,464
NET ASSETS AT END OF YEAR.....	\$ 76,207,067	\$ 3,447,108

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the Town of Marblehead's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements. The financial statements and notes are representations of the Town's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principals (GAAP), as applicable to governments, and have been consistently applied in the preparation of the financial statements. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town of Marblehead is a municipal corporation that is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the Town is considered to be financially accountable. Component units, although legally separate entities, are, in substance, part of the government's operations and data from these units are combined with the data of the primary government. Specifically excluded from the Town's financial statements because they are autonomous entities or agencies are the Marblehead Housing Authority and North Shore Regional Vocational School District.

Blended component units are entities which are legally separate from the Town, but are so related to the Town that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The Marblehead Contributory Retirement System (the System) is blended within the Primary Government as a Pension Trust Fund within the Fiduciary Fund financial statements. The System is governed by a five member board comprised of the Town's Finance Director (ex-officio), two elected members and one member appointed by the Board of Selectmen and one member appointed by the Board members. The System is a legally separate entity, but the nature and significance of its relationship with the Town warrants inclusion in the basic financial statements. The System is presented using the accrual basis of accounting. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System at 7 Widger Road, Marblehead, MA 01945.

The Town presents the financial position of the Marblehead Municipal Light Plant (MMLP) and the results of its operations on a calendar year basis as an Enterprise Fund in the Proprietary Fund Financial Statements. The MMLP maintains a separate set of books and records on a calendar year basis, and issues yearly financial statements. The MMLP's financial statements for the year ended December 31, 2010, were audited by other independent public accountants. A copy of the report can be obtained by contacting the MMLP at 80 Commercial Street, Marblehead, MA 01945.

The Town is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem, Peabody and Beverly and the Towns of Marblehead and Danvers, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2011, the Town's equity interest in the operations of the District is \$1,280,055, which is recorded in the Sewer Enterprise Fund. Complete financial statements can be obtained directly from their administrative offices located at 50 Fort Avenue, Salem, MA 01970.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

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

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

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

Fund Financial Statements

Governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Property taxes, excise taxes, and trash user charges are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

The *Capital Projects Fund* is used to account for the financial activities associated with major capital projects that have been authorized by Town Meeting and approved by the voters to be funded by the proceeds of bonds sales.

The *Public Funds* are the Town's *Permanent Funds* which are used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The nonmajor governmental funds consist of special revenue funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describe the general use of this fund type:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

Proprietary funds are accounted for using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following major enterprise funds are reported:

The *Water* enterprise fund is used to account for the Town's water activities.

The *Sewer* enterprise fund is used to account for the Town's sewer activities.

The *Harbor* enterprise fund is used to account for the Town's harbor activities.

The *Municipal Light* enterprise fund is used to account for the Town's electricity activities.

The *Internal Service Funds* are used to account for the financing of services provided by one department to other departments or governmental units.

The following activities within the internal service fund are reported:

The medical claims activity is used to account for the payment of medical claims of the Town's employees and covered dependents.

The medex claims activity is used to account for the payment medical claims of the Town's retired employees over the age of 65 as a supplement to medicare.

The workers' compensation activity is used to account for Town appropriations and investment earnings which are expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

Fiduciary funds are reported using the flow of economic resources measurement focus and use the accrual basis of accounting excluding Agency Funds. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following Fiduciary funds are reported:

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

The *agency fund* is used to account for assets held in a purely custodial capacity. Agency funds apply the accrual basis of accounting but do not have a measurement focus. The Town's agency fund consist of performance bonds and the collection and payment of hunting and fishing licenses, firearm permits, sales taxes, meals taxes, and dog licenses to the State, proceeds of extra work details to the Town employees, and school student activity accounts.

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

Government-Wide and Fund Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and 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.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

E. Accounts Receivable and Allowance for Uncollectible Accounts

Government-Wide and Fund Financial Statements

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

Real and personal property taxes are based upon values assessed as of January 1 and are levied each July for the following fiscal year ending June 30. Taxes for each year are due in quarterly installments and are normally payable August 1, November 1, February 1 and May 1. Interest accrues on delinquent taxes and is recognized

as revenue when received. Tax liens are processed within twelve months after the close of the valuation year on delinquent properties.

The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the Town.

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

Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

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

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

Harbor fees are assessed based on an annual basis and the portion of the fees that relate to July 1 through December 31 is recorded as unearned revenue at June 30.

The allowance for uncollectible accounts has been estimated based on historical trends and is reflected as a reduction to the receivables in the asset section of the financial statements.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase except in the Municipal Light Enterprise Fund where inventories of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes are stated at average cost, which approximates market value at December 31, 2010. Such inventories of both the Governmental Funds and Enterprise Funds, except the Municipal Light Fund, are not material in total to the basic financial statements and therefore are not reported.

G. Capital Assets

Government-Wide and Fund Financial Statements

Capital assets, which include land, construction in progress, piers, buildings, building improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental, business-type activity and fiduciary column of the government-wide and fund based financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date

of donation. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000, and with the expected useful lives of greater than one year, are capitalized at the date of acquisition or construction. Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis.

The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Building improvements.....	6-20
Buildings.....	40
Infrastructure.....	5-50
Land improvements.....	10-30
Machinery and equipment.....	3-15
Piers.....	15-75

H. Compensated Absences

Government-Wide and Fund Financial Statements

Under the terms of various union contracts, Town employees are granted vacation and sick leave benefits in varying amounts. In the event of termination, an employee is paid for all accumulated vacation. Vacation earned in one year may be carried forward to be used in the following year. Town employees are granted a varying proportion of their unused sick leave upon death or retirement. Accumulated unpaid vacation, sick pay and other employee benefit amounts are reported as liabilities in the government-wide and enterprise financial statements.

I. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

J. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as

other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets reported as “invested in capital assets, net of related debt” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net Assets has been “restricted for” the following:

Permanent Funds - Expendable represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

Permanent Funds - Nonexpendable represents the endowment portion of donor restricted trusts that support governmental programs.

Gifts and Grants - represents grants and gifts restricted by outside parties.

Fund Financial Statements (Fund Balance)

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

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

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed.

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

L. Investment Income

Investment income from Special Revenue, Capital Projects, and Agency Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

M. Total Columns

Government-Wide Financial Statements

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

Fund Financial Statements

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

N. On-Behalf Payments

Government-Wide and Fund Financial Statements

The Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth. The accompanying basic financial statements include the required adjustments, which have increased both intergovernmental revenue and pension expenditures by the same amount. The effect of such an adjustment has not changed the excess of revenues and other financing sources over expenditures and other financing uses or fund balances.

O. Fund Deficits

In the Internal Service Fund, the Workers' Compensation Fund deficit of approximately \$133,372 will be funded by Town appropriations. This deficit is related to the estimate of future liability associated with long-term claims.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of 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 disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

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

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

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

The Town's trust funds and retirement system have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other investments. The retirement system participates in the Pensions Reserves Investment Trust (PRIT) Fund which is a pooled investment fund that meets the criteria of an external investment pool. The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the PRIT Fund. The fair value of the position in the PRIT fund is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$33,959,145 and the bank balance totaled \$33,414,931. Of the bank balance, \$1,360,211 was covered by Federal Depository Insurance, \$30,249,861 was collateralized and \$1,804,859 was exposed to custodial credit risk because it was uninsured and uncollateralized. During fiscal year 2011, the Town entered into a new collateralization agreement with its primary depository bank which greatly reduced the amount of deposits exposed to custodial credit risk compared to prior years.

At December 31, 2010, the carrying amount of deposits for the System totaled \$95,938 and the bank balance of \$137,511 was fully covered by Federal Depository Insurance.

Investments

At fiscal year end, the Town and the System had the following investments:

Town balances at June 30, 2011:

Investment Type	<u>Fair Value</u>
<u>Other Investments</u>	
Equity Securities.....	\$ 1,029,350
MMDT.....	<u>8,450,904</u>
Total Investments.....	<u>\$ 9,480,254</u>

System balances at December 31, 2010:

Investment Type	<u>Fair Value</u>
PRIT.....	<u>\$ 74,939,241</u>

The Town participates in the MMDT Cash Portfolio. MMDT maintains a cash portfolio and a short-term bond portfolio with combined average maturities of approximately 3 months. Credit ratings associated with the Town's investment in MMDT ranged from A1/P1 to unrated; with approximately 98% rated A1/P1 and approximately 2% rated A2/P2.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 11.6 years.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town does not have any custodial credit risk exposure as of June 30, 2011 because the \$1,029,350 in equity securities are held by the Town and the \$8,450,904 in shares of MMDT are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

The Town has not adopted a formal policy related to custodial credit risk.

At December 31, 2010, the System's \$74,939,241 investment in PRIT is not subject to custodial credit risk exposure because it is not evidenced by securities that exist in physical or book-entry form.

The System has not adopted a formal policy related to custodial credit risk.

Interest Rate Risk

Neither the Town nor the System has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk. The Town's investments in MMDT are unrated.

The System has not adopted a formal policy related to Credit Risk. The System's investments in PRIT are unrated.

Concentration of Credit Risk

The Town and the System do not place a limit on the amount that may be invested in any one issuer.

NOTE 3 – RECEIVABLES

At June 30, 2011, receivables for the individual major and non-major governmental funds and the internal service funds; and the fiduciary funds in the aggregate, including the applicable allowance for uncollectible accounts are as follows:

GOVERNMENTAL, INTERNAL SERVICE AND FIDUCIARY FUNDS RECEIVABLES

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 534,291	\$ (10,636)	\$ 523,655
Real estate tax deferrals.....	689,444	-	689,444
Tax liens.....	321,922	-	321,922
Motor vehicle excise taxes.....	286,662	(106,095)	180,567
Interest and dividends.....	45,730	-	45,730
Departmental and other.....	57,669	(151)	57,518
Intergovernmental - pension fund.....	1,172,848	-	1,172,848
Intergovernmental - governmental funds.....	805,845	-	805,845
Total.....	<u>\$ 3,914,411</u>	<u>\$ (116,882)</u>	<u>\$ 3,797,529</u>

At June 30, 2011, receivables for the enterprise funds consist of the following:

ENTERPRISE FUND RECEIVABLES

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer user fees.....	\$ 867,713	\$ (21,763)	\$ 845,950
Water user fees.....	655,269	(16,467)	638,802
Harbor user fees.....	6,005	(1,201)	4,804
Municipal Light user fees (December 31, 2010).....	2,223,092	(383,967)	1,839,125
Boat excise.....	43,406	(2,170)	41,236
Total.....	<u>\$ 3,795,485</u>	<u>\$ (425,568)</u>	<u>\$ 3,369,917</u>

Deferred Revenue

Property taxes and other receivables in Governmental Funds that are measurable but not available have been classified as deferred revenue on June 30, 2011 as follows:

COMPONENTS OF DEFERRED REVENUE

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 212,266	\$ -	\$ 212,266
Real estate tax deferrals.....	689,444	-	689,444
Tax liens.....	321,922	-	321,922
Motor vehicle excise taxes.....	90,409	-	90,409
Departmental and other.....	606	17,961	18,567
Intergovernmental.....	16,281	251,046	267,327
 Total.....	 \$ 1,330,928	 \$ 269,007	 \$ 1,599,935

NOTE 4 – INTERFUND TRANSFERS AND BALANCES

Interfund Receivables / Payables

Individual fund’s interfund receivable and payable balances at June 30, 2011 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund.....	\$ 315,054	\$ 4,114,745 (1)
Non-Major Governmental Funds:		
State Grants	-	315,054
Enterprise Funds:		
Municipal Light, at December 31, 2010.....	3,309,675	-
Agency Funds.....	52,123	-
	3,676,852	4,429,799
Less: Municipal Light Fund Receivable at December 31, 2010.....	(3,309,675)	-
Less: General Fund Payable to Municipal Light Fund at June 30, 2011.....	-	(4,062,622)
 Total	 \$ 367,177	 \$ 367,177

(1) Represents \$4,062,622 payable from the General Fund to the Municipal Light Fund for deposits held by the General Fund, which includes a timing difference of \$752,947 due to the reporting of the Municipal Light Fund as of December 31, 2010. The remaining \$52,123 is due to the Agency Funds related to timing of deposits held by the General Fund and \$315,054 due to the outstanding requests for reimbursement for highway improvement projects.

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual fund. Transfers within fund types have been eliminated. Transfers between funds during the year ended June 30, 2011 were:

Transfers Out	Transfers In			Total	
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds		
General.....	\$ -	\$ 60,000	\$ 85,000	\$ 145,000	(1),(6)
Capital Projects Fund.....	-	2,439,251	-	2,439,251	(5)
Public Funds.....	50,000	-	829	50,829	(2),(4)
Nonmajor Governmental Funds.....	337,163	-	-	337,163	(2)
Water Enterprise.....	75,897	-	-	75,897	(3)
Sewer Enterprise.....	88,142	-	-	88,142	(3)
Municipal Light Enterprise.....	330,000	-	-	330,000	(3)
Harbor Enterprise.....	91,036	-	-	91,036	(3)
Total.....	<u>\$ 972,238</u>	<u>\$ 2,499,251</u>	<u>\$ 85,829</u>	<u>\$ 3,557,318</u>	

- (1) Transfer from the school department's budget to fund a deficit in the School Lunch Revolving Fund.
- (2) Transfers from Nonmajor Governmental Funds and the Public Funds major fund to the General Fund to support the general operating budget.
- (3) Payments in lieu of taxes and reimbursements for general government services.
- (4) Transfer from the Public Funds major fund to Special Revenue Trust Funds classified within the Nonmajor Governmental Funds.
- (5) Transfer within the Capital Projects Fund for the Village School MSBA reimbursement.
- (6) Transfer from General fund to capital projects for the Glover school project.

NOTE 5 – CAPITAL ASSETS

Capital asset activity in the Governmental Funds for the fiscal year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	(Retirements)	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 4,964,922	\$ -	\$ -	\$ 4,964,922
Construction in progress.....	17,110,573	421,029	(16,618,344)	913,258
Total capital assets not being depreciated.....	22,075,495	421,029	(16,618,344)	5,878,180
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,933,956	37,290	-	2,971,246
Buildings.....	82,855,410	-	-	82,855,410
Building improvements.....	9,317,732	20,384,581	-	29,702,313
Machinery and equipment.....	9,247,482	1,084,334	(911,615)	9,420,201
Infrastructure.....	29,079,081	878,562	(284,276)	29,673,367
Total capital assets being depreciated.....	133,433,661	22,384,767	(1,195,891)	154,622,537
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,101,058)	(91,832)	-	(1,192,890)
Buildings.....	(22,891,863)	(1,892,137)	-	(24,784,000)
Building improvements.....	(6,609,620)	(584,188)	-	(7,193,808)
Machinery and equipment.....	(5,822,538)	(1,006,512)	911,615	(5,917,435)
Infrastructure.....	(7,311,390)	(633,772)	284,276	(7,660,886)
Total accumulated depreciation.....	(43,736,469)	(4,208,441)	1,195,891	(46,749,019)
Total capital assets being depreciated, net.....	89,697,192	18,176,326	-	107,873,518
Total governmental activities capital assets, net.....	\$ 111,772,687	\$ 18,597,355	\$ (16,618,344)	\$ 113,751,698

Capital asset activity for the Business Type Activities for the fiscal year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	(Retirements)	Ending Balance
Business-Type Activities:				
<u>Sewer:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,466	\$ -	\$ -	\$ 115,466
<u>Capital assets being depreciated:</u>				
Buildings.....	114,350	-	-	114,350
Machinery and equipment.....	1,010,994	43,554	-	1,054,548
Infrastructure.....	13,140,767	701,467	-	13,842,234
Total capital assets being depreciated.....	14,266,111	745,021	-	15,011,132
<u>Less accumulated depreciation for:</u>				
Buildings.....	(114,350)	-	-	(114,350)
Machinery and equipment.....	(477,554)	(113,043)	-	(590,597)
Infrastructure.....	(5,415,680)	(264,560)	-	(5,680,240)
Total accumulated depreciation.....	(6,007,584)	(377,603)	-	(6,385,187)
Total capital assets being depreciated, net.....	8,258,527	367,418	-	8,625,945
Total sewer activities capital assets, net.....	\$ 8,373,993	\$ 367,418	\$ -	\$ 8,741,411
	Beginning Balance	Additions	(Retirements)	Ending Balance
<u>Water:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 49,427	\$ -	\$ -	\$ 49,427
<u>Capital assets being depreciated:</u>				
Land improvements.....	45,856	-	-	45,856
Buildings.....	946,475	-	-	946,475
Machinery and equipment.....	759,247	55,345	(28,154)	786,438
Infrastructure.....	12,153,749	1,372,356	-	13,526,105
Total capital assets being depreciated.....	13,905,327	1,427,701	(28,154)	15,304,874
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(6,879)	(1,528)	-	(8,407)
Buildings.....	(426,367)	(22,247)	-	(448,614)
Machinery and equipment.....	(434,958)	(43,895)	28,154	(450,699)
Infrastructure.....	(4,341,002)	(281,727)	-	(4,622,729)
Total accumulated depreciation.....	(5,209,206)	(349,397)	28,154	(5,530,449)
Total capital assets being depreciated, net.....	8,696,121	1,078,304	-	9,774,425
Total water activities capital assets, net.....	\$ 8,745,548	\$ 1,078,304	\$ -	\$ 9,823,852

	Beginning Balance	Additions	(Retirements)	Ending Balance
<i>Harbor:</i>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,004,077	\$ -	\$ -	\$ 2,004,077
Construction in progress.....	31,180	13,300	-	44,480
Total capital assets not being depreciated.....	2,035,257	13,300	-	2,048,557
<u>Capital assets being depreciated:</u>				
Piers.....	51,901	9,600	-	61,501
Buildings.....	883,440	-	-	883,440
Building improvements.....	102,336	-	-	102,336
Land improvements.....	927,979	-	-	927,979
Machinery and equipment.....	942,231	51,990	-	994,221
Total capital assets being depreciated.....	2,907,887	61,590	-	2,969,477
<u>Less accumulated depreciation for:</u>				
Piers.....	(46,030)	(652)	-	(46,682)
Buildings.....	(279,045)	(21,610)	-	(300,655)
Building improvements.....	(41,399)	(3,689)	-	(45,088)
Land improvements.....	(362,114)	(19,682)	-	(381,796)
Machinery and equipment.....	(594,759)	(45,428)	-	(640,187)
Total accumulated depreciation.....	(1,323,347)	(91,061)	-	(1,414,408)
Total capital assets being depreciated, net.....	1,584,540	(29,471)	-	1,555,069
Total harbor activities capital assets, net.....	\$ 3,619,797	\$ (16,171)	\$ -	\$ 3,603,626

	Beginning Balance	Additions	(Retirements)	Ending Balance
<i>Municipal Light:</i>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 52,096	\$ -	\$ -	\$ 52,096
<u>Capital assets being depreciated:</u>				
Light plant and equipment.....	24,523,981	964,648	(134,698)	25,353,931
<u>Less accumulated depreciation for:</u>				
Light plant and equipment.....	(11,604,588)	(1,226,277)	134,698	(12,696,167)
Total capital assets being depreciated, net.....	12,919,393	(261,629)	-	12,657,764
Total light activities capital assets, net.....	\$ 12,971,489	\$ (261,629)	\$ -	\$ 12,709,860

Capital asset activity for the Fiduciary Funds for the fiscal year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	(Retirements)	Ending Balance
<i>Fiduciary Activities:</i>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,045	\$ -	\$ -	\$ 2,045
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	123,056	-	-	123,056
<u>Less accumulated depreciation for:</u>				
Buildings.....	(71,528)	(5,011)	-	(76,539)
Total capital assets being depreciated, net.....	51,528	(5,011)	-	46,517
Total fiduciary activities capital assets, net.....	\$ 53,573	\$ (5,011)	\$ -	\$ 48,562

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

Governmental Activities:

General government.....	\$ 108,928
Public safety.....	238,241
Education.....	2,403,307
Public works.....	1,043,597
Human services.....	39,007
Culture and recreation.....	375,361
Total depreciation expense - governmental activities.....	\$ 4,208,441

Business-Type Activities:

Sewer.....	\$ 377,603
Water.....	349,397
Harbor.....	91,061
Municipal Light.....	1,226,277
Total depreciation expense - business-type activities.....	\$ 2,044,338

NOTE 6 – SHORT-TERM FINANCING

The Town of Marblehead is authorized, through its Treasurer, to borrow in anticipation of taxes (TANS), to fund capital project costs in anticipation of the issuance of bonds (BANS) or in anticipation of the receipt of federal (FANS) and state (SANS) grants.

During fiscal 2011, the Town's BAN activity has been classified as long term. Refer to Note 7 for information regarding BANs classified as long-term debt as of June 30, 2011.

NOTE 7 – LONG-TERM DEBT

The Town of Marblehead's long-term debt issues constitute a pledge of the Town's full faith and credit. Payment is not limited to a particular revenue source. However, as previously noted, the Town's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2½."

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a summary of the long-term debt transactions of the Town for the year ended June 30, 2011:

General Obligation Bonds and Notes Payable Schedule - Governmental Funds

Project	Interest % Rate	Balance 6/30/10	Issued and Transferred	Redeemed	Balance 6/30/11
Drain Construction.....	3.93	\$ 450,000	\$ -	\$ 450,000	\$ -
School Construction, maturities through 2025.....	4.79	21,130,000	-	1,025,000	20,105,000
Causeway Seawall, maturities through 2018.....	2.00	6,500,000	-	815,000	5,685,000
Transfer Station - Long-Term BAN.....	1.50	583,000	-	583,000	-
Glover School Feasibility Study - Long-term BAN.....	1.50	395,000	-	395,000	-
Village School - Long-term BAN.....	1.50	13,422,000	-	13,422,000	-
Glover School Feasibility Study - Long-term BAN.....	2.00	-	312,000	-	312,000
Village School - Long-term BAN.....	2.00	-	3,020,000	-	3,020,000
Village School, maturities through 2031.....	3.06	-	12,000,000	-	12,000,000
Total General Obligation Bonds and Notes.....		42,480,000	15,332,000	16,690,000	41,122,000
Unamortized Premiums on Bonds and Notes.....		860,822	479,837	57,388	1,283,271
Total.....		\$ 43,340,822	\$ 15,811,837	\$ 16,747,388	\$ 42,405,271

As of June 30, 2011, the Town has approximately \$2.2 million in Massachusetts School Building Authority (MSBA) reimbursements and unamortized premiums on bonds reserved in a special revenue fund to offset future interest expenses related to long-term bonds.

The Town had \$13,817,000 in long-term BANs outstanding on July 1, 2010. During fiscal year 2011, the Town paid down \$135,000 of the long-term BANs and the remaining balance of \$13,682,000 was refinanced and has been classified as a current refunding of debt. The current refunding did not have an economic gain or loss.

At fiscal year end, the Town had approximately \$3.3 million in long-term BANs outstanding which were due on August 12, 2011. The long-term BANs consisted of the original \$1.7 million from previous issuances and an additional \$1.6 million in new BANs. In fiscal year 2012, the Town paid down approximately \$3.1 million and rolled over approximately \$243,000 to a new BAN with an interest rate of 1.5% due August 10, 2012.

Subsequent to year end the Town refunded \$15.7 million of debt outstanding relating to school construction through the issuance of \$15.9 million for an economic gain of \$1,291,937.

Annual Requirements

The annual requirements to amortize all long-term debt outstanding as of June 30, 2011, are as follows:

Fiscal Year	Governmental Exempt from Proposition 2 1/2		Total Requirement
	Principal	Interest	
2012	\$ 5,457,000	\$ 1,801,202	\$ 7,258,202
2013	2,370,000	1,509,725	3,879,725
2014	2,415,000	1,415,845	3,830,845
2015	2,480,000	1,311,175	3,791,175
2016	2,550,000	1,200,850	3,750,850
2017	2,625,000	1,084,600	3,709,600
2018	2,710,000	964,500	3,674,500
2019	1,980,000	853,925	2,833,925
2020	2,065,000	752,800	2,817,800
2021	2,165,000	647,050	2,812,050
2022	2,260,000	543,119	2,803,119
2023	2,365,000	440,337	2,805,337
2024	2,480,000	331,762	2,811,762
2025	2,595,000	217,937	2,812,937
2026	695,000	148,419	843,419
2027	720,000	125,425	845,425
2028	750,000	100,600	850,600
2029	780,000	73,825	853,825
2030	815,000	45,403	860,403
2031	845,000	15,316	860,316
Totals	\$ <u>41,122,000</u>	\$ <u>13,583,815</u>	\$ <u>54,705,815</u>

Bond Authorizations

Long-term debt authorizations voted by Town Meetings which have not been issued or rescinded as of June 30, 2011, are as follows:

<u>Date Authorized</u>	<u>Project</u>	<u>Amount</u>
June 2008	Village School Reconstruction.....	\$ 9,078,113
June 2008	Glover School Feasibility Study.....	312,000
June 2011	Landfill Remediation and Transfer Station.....	15,102,000
June 2011	Stoney Brook Road Remediation.....	3,072,578
June 2011	Glover School Construction.....	<u>25,450,000</u>
	Total.....	<u>\$ 53,014,691</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Long-term bonds and notes.....	\$ 42,480,000	\$ 15,332,000	\$ (16,690,000)	\$ 41,122,000	\$ 5,457,000
Unamortized bond premium.....	860,822	600,790	(178,341)	1,283,271	81,380
Other postemployment benefits.....	7,428,081	9,218,391	(4,979,524)	11,666,948	-
Compensated absences.....	1,015,752	801,500	(821,042)	996,210	847,620
Landfill Closure.....	7,600,000	3,072,578	(758,000)	9,914,578	3,983,000
Workers' compensation.....	702,356	116,126	(131,363)	687,119	282,631
Total governmental activity long-term liabilities.....	<u>\$ 60,087,011</u>	<u>\$ 29,141,385</u>	<u>\$ (23,558,270)</u>	<u>\$ 65,670,126</u>	<u>\$ 10,651,631</u>
Business-Type Activities:					
Other postemployment benefits.....	\$ 518,510	\$ 563,236	\$ (181,982)	\$ 899,764	\$ -
Compensated absences.....	266,728	163,529	(191,327)	238,930	171,955
Total business-type activity long-term liabilities.....	<u>\$ 785,238</u>	<u>\$ 726,765</u>	<u>\$ (373,309)</u>	<u>\$ 1,138,694</u>	<u>\$ 171,955</u>

Long-term liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures, which consist of the general fund and the sewer, water, and harbor enterprise funds.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

In fiscal year 2011, the Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

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

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

As of June 30, 2011, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS				
	General	Capital Projects Fund	Public Funds	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ 3,379,232	\$ -	\$ 3,379,232
Restricted for:					
Capital projects fund.....	-	435,601	-	-	435,601
Public funds.....	-	-	1,362,484	-	1,362,484
Town revolving funds.....	-	-	-	447,216	447,216
Town gift funds.....	-	-	-	188,026	188,026
Town federal grant funds.....	-	-	-	159,134	159,134
Town state grant funds.....	-	-	-	93,629	93,629
Town other grant funds.....	-	-	-	456,906	456,906
Town receipts reserved for appropriations.....	-	-	-	2,743,030	2,743,030
Special revenue trust funds.....	-	-	-	3,158,001	3,158,001
Assigned to:					
General government.....	174,953	-	-	-	174,953
Public safety.....	16,969	-	-	-	16,969
Public works.....	303,335	-	-	-	303,335
Culture and recreation.....	6,900	-	-	-	6,900
Free cash used for subsequent year's expenditures....	4,595,434	-	-	-	4,595,434
Unassigned.....	6,281,372	-	-	-	6,281,372
TOTAL FUND BALANCES.....	\$ 11,378,963	\$ 435,601	\$ 4,741,716	\$ 7,245,942	\$ 23,802,222

NOTE 9 – PENSION PLAN

A. Defined Benefit Plan

Pensions for employees other than School Department teaching staff and certain school administrators are provided through the Town of Marblehead Contributory Retirement System (the System), a cost-sharing multiple

employer defined benefit plan, administered by the Marblehead Contributory Retirement Board. Massachusetts contributory retirement system benefits are uniform from system to system, including the Massachusetts Teachers Retirement System. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

Employees who are employed on a basis, which anticipates work at an annual rate to exceed 1,560 hours, are eligible to participate from the date of their employment. Participants' contributions are fully vested at all times. A superannuation allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

As of December 31, 2010, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits.....	333
Active employees.....	345
Inactive employees.....	<u>34</u>
Total.....	<u>712</u>

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated contributions. In addition, such employees are entitled to receive interest which has accrued on those contributions. Employees who involuntarily terminate are entitled to regular interest on their accumulated contributions. Those who voluntarily terminate with less than 10 years of service are entitled to 3% interest on their accumulated contributions and those voluntarily terminating with greater than 10 years of service are entitled to regular interest.

Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

From time to time, cost-of-living increases are granted to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance, subject to a maximum dollar increase (presently \$12,000). The Massachusetts legislature voted these increases until 1997, and the cost was borne by the System until 1980 and from 1981 to 1997 are the financial responsibility of the Commonwealth. Since July 1, 1998, the Town Retirement Board is authorized to vote to award annual cost-of-living increases up to a maximum of 3% which are the financial responsibility of the System.

State Legislation requires that both the employee and the Town contribute to the System. Employees contribute an amount equal to 5%, 7%, 8% or 9% of their base salary, based on the date hired. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. The Town is required to contribute at an actuarially determined rate, which is the amount required to cover normal cost plus amortization of unfunded prior service cost as approved by the Commonwealth's Public Employee Retirement Administration Commission. The Town's contributions for each employee (and interest allocated to the employee's account) are fully vested after ten years of continuous service.

School Department teaching staff and certain administrators contribute to a pension plan administered by the Massachusetts Teachers Retirement Board. The Town makes no contributions to this plan. Contributions are made by the Commonwealth of Massachusetts as required by law. The amount of these on-behalf payments totaled \$6,313,608 for the fiscal year ended June 30, 2011. Employees in this plan are vested after ten years of service. Employer contributions are funded based on a funding schedule as approved by the Commonwealth's Public Employee Retirement Administration Commission.

The system may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination will be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

The System issues a publicly available financial report in accordance with guidelines established by the PERAC. That report may be obtained from the System located at 7 Widger Road, Marblehead, MA 01945.

B. Summary of Significant Accounting Policies

Basis of Accounting - The Marblehead Contributory Retirement System (the System) follows the policies mandated by the Commonwealth of Massachusetts. Its accounting records are maintained on the accrual basis. Town and participant contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of Massachusetts General Law and the plan.

Method Used to Value Investments - Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

C. Funding Status and Progress

The most recent actuarial valuation of the System was prepared as of January 1, 2010. Additional information as of the latest actuarial valuation follows:

- Actuarial cost method..... Individual entry age normal
- Amortization method..... 4.5% Increasing amortization using a level percentage of projected payroll
- Remaining closed amortization period... 20 years from January 1, 2010
- Asset valuation method..... Asset Smoothing
- Actuarial assumptions:
 - Investment rate of return..... 8%
 - Projected salary increases..... 3% (2010), 3.5% (2011-2014), and 4% (2015 and beyond)
 - Cost-of-living adjustments..... 3% on first \$12,000 of retirement income

D. Contributions Required and Contributions Made

The System's funding policy provides for semi-annual employer contributions at actuarially determined rates that expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due, based on the above assumptions. Level percentage of payroll employer contribution rates is determined

using the entry age normal actuarial cost funding method. The Retirement Plan will amortize the unfunded liability over a 20-year period.

Generally accepted accounting principles require that the minimum cost charged each year by the Town for its pension obligation should be the present value of benefits estimated to be payable in the future, (computed using an acceptable actuarial valuation method using assumptions that reflect the best judgments of future events, including salary projections) plus amortization of the liability for past services, as of the balance sheet date.

Employer appropriation, required for the last three fiscal years are as follows:

Fiscal Year	Required Contribution	Percent Contributed
2011	\$ 2,305,578	98.22%
2010	2,305,578	98.22%
2009	2,300,130	97.99%

E. Funding Status and Historical Data

An analysis of the funding progress since 1998 is as follows:

Actuarial Valuation As of	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
01/01/10	\$ 77,353,879	\$ 98,858,864	\$ 21,504,985	78.2%	\$ 16,244,071	132.4%
01/01/08	84,442,905	93,908,490	9,465,585	89.9%	15,827,608	59.8%
01/01/06	69,105,082	82,948,269	13,843,187	83.3%	14,159,647	97.8%
01/01/04	64,490,373	76,875,640	12,385,267	83.9%	13,982,752	88.6%
01/01/02	60,615,356	71,022,123	10,406,767	85.3%	13,268,405	78.4%
01/01/00	54,015,622	63,939,027	9,923,405	84.5%	11,833,509	83.9%
01/01/98	42,540,310	55,347,500	12,807,190	76.9%	10,533,300	121.6%

F. Schedule of Funding Progress

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

G. Noncontributory Retirement Plan

The Town also has a noncontributory pension plan which covers certain employees hired prior to the adoption of the Contributory Retirement System. Total payments for the Town’s share of this plan amounted to \$116,827 during the year ended June 30, 2011.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Plan Description – The Town of Marblehead administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – The Town’s required contribution is based on a pay-as-you-go financing requirement. The Town contributes 60-80 percent of the cost of pre-Medicare coverage and 75 percent of the cost of the Medex plan and Medicare Part B. Plan members receiving benefits contribute the remaining 20-40 percent of the cost of pre-Medicare and 25 percent of the cost of Medex plan and Medicare Part B. For fiscal year 2011, the Town contributed \$4.1 million to the plan, and member contributions totaled \$1.3 million.

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

Annual required contribution.....	\$	9,932,189
Interest on net OPEB obligation.....		357,597
Adjustments to annual required contribution.....		(276,806)
*Adjustment for Electric Light Department.....		<u>(231,353)</u>
Annual OPEB cost (expense).....		9,781,627
Contributions made.....		<u>(5,161,506)</u>
Increase in net OPEB obligation.....		4,620,121
Net OPEB obligation-beginning of year.....		<u>7,946,591</u>
Net OPEB obligation-end of year.....	\$	<u><u>12,566,712</u></u>

*Electric Light amounts are shown for the six months ended December 31, 2010.

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 9,781,627	53%	\$ 12,566,712
6/30/2010	8,640,091	54%	7,946,591
6/30/2009	8,304,500	53%	3,978,500

Funded Status and Funding Progress – As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$139.2 million, all of which was unfunded. The covered payroll (annual payroll of

active employees covered by the plan) was \$41.5 million, and the ratio of the UAAL to the covered payroll was 335.3%.

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

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

In the July 1, 2010, actuarial valuation, actuarial liabilities were determined using the entry age normal cost method. The actuarial assumptions included a 4.5% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 10% initially, graded to 5% over 10 years. The UAAL is being amortized over a 30 year closed period using a level percentage of projected payroll, with amortization payments increasing at 4.5% per year.

NOTE 11 – COMMITMENTS

The Town has various commitments through its participation in a bulk power supply agency, as discussed more fully in Note 13.

In May of 2011, the Town voted to authorize the Treasurer to borrow \$18,174,578, and \$24,450,000 to finance capping of the Town's old landfill, the construction of a new transfer station and the cleanup of certain properties on Stoney Brook Road, and for the construction a new Glover School, respectively. The Town has been approved by the MSBA for reimbursement of 40% of the eligible costs associated with the Glover School project, provided that the Town complies with all necessary steps set forth by the MSBA. The Town is expected to commence both these capital projects in FY12.

NOTE 12 – CONTINGENCIES

The Town participates in a number of federal and state assisted grant programs, principal of which are educational grants. These programs are subject to program compliance and audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

There are several pending lawsuits in which the Town is involved. Town Counsel estimates that the potential claims against the Town, resulting from such litigation, which are not covered by insurance, would not materially effect the financial statements of the Town.

NOTE 13 – PARTICIPATION IN MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

The Town of Marblehead acting through its Municipal Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate plus available funds pledged under the Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, a subsidiary of NextEra Energy Resources, LLC (formerly FPL Energy LLC) and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. The operating license for Milestone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) (formerly FPL Energy Seabrook, LLC). The operating license for Seabrook Station extends to March 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Marblehead Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Departmental revenues. Under the PSAs, each Participant is unconditionally obligated to

make all payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the department.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

As of December 31, 2010, total capital expenditures amounted to \$1,573,043,000 of which \$25,823,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$444,255,000, of which \$6,659,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. As of December 31, 2010, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$491,543,000, of which \$7,164,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Marblehead Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2010, is shown below:

		<u>Annual Costs</u>
For years ended December 31,	2011	\$ 1,342,000
	2012	1,345,000
	2013	1,280,000
	2014	1,083,000
	2015	965,000
	2016 to 2019	<u>1,149,000</u>
	Total	<u>\$ 7,164,000</u>

In addition, under the PSAs, the Department is required to pay MMWEC its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$3,706,000 and \$3,757,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 14 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town is self-insured for its workers' compensation activities. These activities are accounted for in the Town's Internal Service Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

During fiscal year 2009, the Town converted its health insurance plans to premium based which shifts the risk of insurance to a third party. The premium based plan took effect on July 1, 2008. The Town has paid all residual

claims under the self-insured health plan that have been reported through June 30, 2011. The Town is responsible for paying any additional claims on the self-insured plan that may not have been reported as of June 30, 2011.

Changes in the reported liability since July 1, 2009, are as follows:

		<u>Balance at Beginning of Fiscal Year</u>		<u>Current Year Claims and Changes in Estimate</u>		<u>Claims Payments</u>		<u>Balance at Fiscal Year-End Currently Due</u>
Medical Claims								
Fiscal Year 2010	\$	210,578	\$	(99,769)	\$	(5,520)	\$	105,289
Fiscal Year 2011		105,289		(64,802)		(14,165)		26,322
Medex Claims								
Fiscal Year 2010	\$	46,458	\$	419,771	\$	(443,001)	\$	23,228
Fiscal Year 2011		23,228		496,640		(514,061)		5,807

The Town provides statutory workers' compensation benefits under a self-insurance plan. In fiscal 1989, the Town established a workers' compensation fund by accepting the provisions of Massachusetts General Laws, Chapter 40, Section 13a. A private consultant hired by the Town administers workers' compensation claims. Claims are recorded as expenses in the year payment is made. The Town estimates its future workers' compensation liability based on history and type and records the liability in the Internal Service Fund.

An analysis of workers' compensation activity is presented below:

		<u>Balance at Beginning of Fiscal Year</u>		<u>Current Year Claims and Changes in Estimate</u>		<u>Claims Payments</u>		<u>Balance at Fiscal Year-End</u>		<u>Current Portion</u>
Fiscal Year 2010	\$	707,803	\$	211,993	\$	(217,440)	\$	702,356	\$	253,545
Fiscal Year 2011		702,356		116,126		(131,363)		687,119		282,631

NOTE 15 – CLEANUP AND REMEDIATION LIABILITY RELATED TO THE OLD LANDFILL

State and federal laws and regulations require the Town to construct a final capping system on its inactive landfill located at the rear of the Transfer Station at 5 Woodfin Terrace and to perform certain maintenance and monitoring functions at the site after closure. The Town stopped accepting waste and closed the site in 1975 in accordance with the regulations in place at that time. Recently the Town was compelled to provide for the capping and monitoring of its landfill by an administrative consent order issued by the Department of Environmental Protection. The Town completed a study in order to estimate the cost of the landfill closure and postclosure care costs. As a result, the estimate of \$6.8 million has been recorded as a liability in the entity-wide financial statements. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws or regulations.

In fiscal year 2011, the Town became liable for the pollution runoff on Stoney Brook Road. As a result, the Town is purchasing residential land and is working to remediate the issue. The 2011 Annual Town Meeting approved bond authorizations totaling \$3,072,578 to accomplish the purchase and cleanup of these properties. The Town's

voters passed two debt exclusion overrides in June 2011 to fund these bond authorizations. The estimate of \$3.1 million has been recorded as a liability in the entity-wide financial statements. Actual costs may be higher due to inflation, changes in technology, or changes in applicable laws or regulations.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Financial statement changes include new fund balance designations for governmental funds. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- GASB Statement #59, *Financial Instruments Omnibus*. The implementation of this statement did not impact the basic financial statements.

Other Future GASB Pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. This Statement addresses service concession arrangements, which are a type of public-private or public-public partnership. Management is evaluating whether this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34*, which is required to be implemented in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that does not conflict with or contradict GASB pronouncements. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

Required Supplementary Information

General Fund

The General Fund is used to account for all transactions encompassing the approved current operating budget, the related revenues, expenditures, assets, liabilities and fund balances which are not accounted for in other funds. The budget of the Town is recorded in detail in the general fund by line item within department and, as a result, most of the current operations of the Town are recorded here.

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 50,976,322	\$ 50,976,322	\$ 50,976,322
Motor vehicle excise taxes.....	-	1,731,000	1,731,000	1,731,000
Charges for services.....	-	496,000	496,000	496,000
Penalties and interest on taxes.....	-	114,000	114,000	114,000
Licenses and permits.....	-	370,642	370,642	370,642
Fines and forfeitures.....	-	112,000	112,000	112,000
Intergovernmental.....	-	6,288,488	6,288,488	6,288,488
Investment income.....	-	100,000	100,000	100,000
Miscellaneous.....	-	19,000	19,000	19,000
TOTAL REVENUES.....	-	60,207,452	60,207,452	60,207,452
EXPENDITURES:				
Current:				
GENERAL GOVERNMENT				
Moderator - Officials Expense.....	-	100	100	100
Selectmen Officials Expense.....	-	5,500	5,500	5,500
Salaries.....	-	334,202	334,202	334,202
Expense.....	5,000	92,163	97,163	97,163
Art 44, 2001 - Fort Sewall.....	2,206	-	2,206	2,206
Zoning Board Legal Services.....	-	7,000	7,000	7,000
Out of State Travel.....	-	2,000	2,000	2,000
Finance Committee - Salaries.....	-	8,147	8,147	8,147
Expense.....	-	5,585	5,585	5,585
Local Travel.....	-	175	175	175
Reserve Fund.....	-	144,000	144,000	76,599
Finance - Salaries.....	-	634,901	634,901	634,901
Expense.....	10,000	246,205	256,205	256,205
Assessors - Officials Expense.....	-	300	300	300
Assessors - Salaries.....	-	174,390	174,390	174,390
Expense.....	-	33,785	33,785	33,785
Local Travel.....	-	400	400	400
Town Counsel - Salaries.....	-	2,000	2,000	2,000
Expense.....	-	62,932	62,932	62,932
Parking Tickets - Expense.....	-	10,484	10,484	10,484
Town Clerk - Salaries.....	-	151,847	151,847	151,847
Expense.....	-	9,037	9,037	9,037
Election and Registration - Salaries.....	-	22,750	22,750	22,750
Expense.....	-	21,865	21,865	24,056
Planning Board - Expense.....	-	1,675	1,675	5,475
Public Buildings - Salaries.....	-	85,296	85,296	85,295
Expense.....	-	101,100	101,100	101,100
Local Travel.....	-	400	400	400
Art. 20, 2009 - Improve Public Buildings.....	81,300	-	81,300	81,300
Art. 22, 2008 - Improve Public Buildings.....	10,212	-	10,212	10,212
Art. 12, 2010 - Improve Public Buildings.....	-	161,500	161,500	74,270
Town Reports.....	-	4,300	4,300	4,300
Town Audit of Accounts.....	-	40,000	40,000	40,000
TOTAL GENERAL GOVERNMENT.....	108,718	2,364,039	2,472,757	2,324,116

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	51,170,197	\$ -	\$ 193,875
	2,757,607	-	1,026,607
	717,430	-	221,430
	226,937	-	112,937
	729,262	-	358,620
	141,460	-	29,460
	6,676,394	-	387,906
	225,757	-	125,757
	48,064	-	29,064
	<u>62,693,108</u>	<u>-</u>	<u>2,485,656</u>
	100	-	-
	5,500	-	-
	331,611	-	2,591
	70,299	-	26,864
	-	2,206	-
	7,000	-	-
	-	-	2,000
	8,147	-	-
	5,232	-	353
	87	-	88
	-	-	76,599
	621,872	-	13,029
	239,189	17,000	16
	300	-	-
	169,527	-	4,863
	29,072	-	4,713
	336	-	64
	2,000	-	-
	51,802	-	11,130
	4,604	-	5,880
	149,844	-	2,003
	9,037	-	-
	21,938	-	812
	24,056	-	-
	5,475	-	-
	81,745	-	3,550
	99,261	-	1,839
	77	-	323
	5,940	75,360	-
	3,285	6,927	-
	810	73,460	-
	2,813	-	1,487
	40,000	-	-
	<u>1,990,959</u>	<u>174,953</u>	<u>158,204</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
PUBLIC SAFETY				
Police - Salaries.....	-	3,024,523	3,024,523	3,024,523
Expense.....	10,000	192,399	202,399	202,399
Indemnification.....	-	10,000	10,000	10,000
Art. 22, 2008 - Improve Public Buildings.....	2,575	-	2,575	2,575
Art. 12, 2010 - Improve Public Buildings.....	-	-	-	62,673
Fire - Salaries.....	-	2,778,544	2,778,544	2,778,544
Expense.....	-	139,298	139,298	169,288
Art. 22, 2010 - Improve Public Buildings.....	18,587	-	18,587	18,587
Art. 12, 2010 - Improve Public Buildings.....	-	-	-	24,557
Art. 11, 2010 - Equipment.....	-	-	-	9,801
Building Commissioner - Salaries.....	-	429,526	429,526	429,526
Expense.....	-	9,755	9,755	9,755
Local Travel.....	-	3,000	3,000	3,000
Art. 11, 2010 - Equipment.....	-	-	-	6,864
Sealer of Weights & Measurers - Expense.....	-	150	150	150
Animal Inspector - Salaries.....	-	2,400	2,400	2,400
TOTAL PUBLIC SAFETY.....	31,162	6,589,595	6,620,757	6,754,642
EDUCATION				
Schools.....	-	28,447,127	28,447,127	28,302,127
Art. 43, 2010 - North Shore Technical School.....	-	138,368	138,368	138,368
TOTAL SCHOOL.....	-	28,585,495	28,585,495	28,440,495
PUBLIC WORKS & FACILITIES				
Engineering - Salaries.....	-	108,221	108,221	108,221
Expense.....	-	10,395	10,395	10,395
Local Travel.....	-	500	500	500
Highway - Salaries.....	-	721,131	721,131	721,131
Expense.....	-	87,084	87,084	87,084
Rebuild & Maintain HTTP STS.....	-	33,750	33,750	33,750
Snow Removal.....	-	100,000	100,000	125,000
Street Lighting.....	-	128,820	128,820	128,820
Art. 11, 2007 - Walls and Fences.....	24,411	-	24,411	24,411
Art. 22, 2008 - Improve Public Buildings.....	1,367	-	1,367	1,367
Art. 11, 2010 - Equipment.....	-	-	-	149,095
Waste Collection - Salaries.....	-	287,655	287,655	287,655
Expense.....	-	1,632,889	1,632,889	1,632,889
Local Travel.....	-	1,512	1,512	1,512
Art. 33, 2007 - Disposal and Remediation.....	106,800	-	106,800	106,800
Art. 37, 2008 - Disposal and Remediation.....	83,322	-	83,322	83,322
Art. 41, 2009 - Disposal and Remediation.....	66,846	-	66,846	66,846
Art. 21, 2010 - Disposal and Remediation.....	-	114,600	114,600	114,600
Art. 42, 2009 - Stoneybrook Remediation.....	105,287	-	105,287	105,288
Art. 19, 2009 - Stoneybrook Remediation.....	26,301	-	26,301	26,301
Art. 11, 2010 - Equipment.....	-	-	-	152,089
Drains - Salaries.....	-	98,727	98,727	98,727
Expense.....	-	5,150	5,150	5,150
Art. 16, 2009-Drain Construction.....	31,536	-	31,536	31,536
Art. 34, 2010-Drain Construction.....	-	324,000	324,000	324,000
Art. 11, 2010 - Equipment.....	-	-	-	53,380
Cemetery - Officials Expense.....	-	300	300	300
Salaries.....	-	299,964	299,964	299,964
Expense.....	-	21,846	21,846	21,846
Art. 23, 2008 - Equipment.....	1,233	-	1,233	1,233
Tree - Salaries.....	-	227,610	227,610	228,490
Expense.....	-	51,578	51,578	51,578
Art. 11, 2010 - Equipment.....	-	379,615	379,615	6,662
TOTAL PUBLIC WORKS & FACILITIES.....	447,103	4,635,347	5,082,450	5,089,942

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
2,921,485	-	103,038
202,236	-	163
903	-	9,097
2,575	-	-
62,673	-	-
2,735,863	-	42,681
151,206	16,969	1,113
18,587	-	-
24,557	-	-
9,801	-	-
395,009	-	34,517
9,216	-	539
2,968	-	32
6,864	-	-
50	-	100
2,400	-	-
<u>6,546,393</u>	<u>16,969</u>	<u>191,280</u>
28,302,127	-	-
<u>138,368</u>	<u>-</u>	<u>-</u>
<u>28,440,495</u>	<u>-</u>	<u>-</u>
101,008	-	7,213
5,625	-	4,770
-	-	500
699,061	-	22,070
83,187	-	3,897
31,973	-	1,777
367,767	-	(242,767)
117,940	-	10,880
788	23,623	-
1,367	-	-
149,095	-	-
278,394	-	9,261
1,479,253	-	153,636
1,512	-	-
90,993	15,807	-
57,679	25,643	-
19,220	47,626	-
37,986	76,614	-
105,288	-	-
26,301	-	-
152,089	-	-
93,842	-	4,885
4,347	-	803
31,536	-	-
211,173	112,827	-
52,185	1,195	-
300	-	-
297,753	-	2,211
20,539	-	1,307
1,233	-	-
227,886	-	604
37,735	-	13,843
6,662	-	-
<u>4,791,717</u>	<u>303,335</u>	<u>(5,110)</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
HUMAN SERVICES				
Health - Officials Expense.....	-	400	400	400
Salaries.....	-	131,039	131,039	131,039
Expense.....	-	13,055	13,055	13,055
Local Travel.....	-	2,100	2,100	2,100
Help for Abused Women and Children (HAWC).....	-	4,000	4,000	4,000
Mental Health - Contractual Services.....	-	60,000	60,000	60,000
Council on Aging - Salaries.....	-	183,829	183,829	183,829
Expense.....	-	3,459	3,459	3,459
Veterans Benefits - Salaries.....	-	56,251	56,251	56,251
Expense.....	-	1,243	1,243	1,243
Local Travel.....	-	1,100	1,100	1,100
Benefits.....	-	19,000	19,000	19,735
TOTAL HUMAN SERVICES.....	-	475,476	475,476	476,211
CULTURE & RECREATION				
Library - Salaries.....	-	725,323	725,323	725,323
Expense.....	-	242,868	242,868	247,674
Local Travel.....	-	100	100	100
Art. 22, 2008 - Improve Public Buildings.....	7,791	-	7,791	7,791
Art. 20, 2009 - Improve Public Buildings.....	10,500	-	10,500	10,500
Park - Salaries.....	-	546,222	546,222	546,222
Expense.....	-	171,590	171,590	171,590
Park Facility Expense.....	-	46,093	46,093	46,093
Art. 20, 2009 - Improve Public Buildings.....	4,938	-	4,938	4,938
Art. 11, 2010 - Equipment.....	-	-	-	1,723
Memorial & Veterans Day.....	-	1,950	1,950	1,950
TOTAL CULTURE & RECREATION.....	23,229	1,734,146	1,757,375	1,763,904
ENERGY				
Energy Reserve.....	-	533,544	533,544	533,544
TOTAL ENERGY RESERVE.....	-	533,544	533,544	533,544
PENSION BENEFITS				
Contributory Retirement Fund.....	-	1,902,903	1,902,903	1,902,903
Noncontributory Retirement.....	-	140,010	140,010	140,010
TOTAL PENSION BENEFITS.....	-	2,042,913	2,042,913	2,042,913
PROPERTY AND LIABILITY INSURANCE				
Other Insurance.....	-	475,888	475,888	475,888
TOTAL PROPERTY AND LIABILITY INSURANCE.....	-	475,888	475,888	475,888
FRINGE BENEFITS				
Medicare.....	-	450,000	450,000	450,000
Salary Reserve.....	-	110,770	110,770	110,770
Group Insurance.....	-	10,516,964	10,516,964	10,516,964
TOTAL FRINGE BENEFITS.....	-	11,077,734	11,077,734	11,077,734
INTERGOVERNMENTAL				
State.....	-	2,120,366	2,120,366	2,120,366
TOTAL INTERGOVERNMENTAL.....	-	2,120,366	2,120,366	2,120,366
DEBT SERVICES				
Maturing Debt.....	-	2,925,000	2,925,000	2,925,000
Interest.....	-	1,445,950	1,445,950	1,445,950
TOTAL DEBT SERVICES.....	-	4,370,950	4,370,950	4,370,950
TOTAL EXPENDITURES.....	610,212	65,005,493	65,615,705	65,470,705
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(610,212)	(4,798,041)	(5,408,253)	(5,263,253)

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
400	-	-
131,039	-	-
11,865	-	1,190
1,705	-	395
4,000	-	-
60,000	-	-
175,968	-	7,861
3,459	-	-
56,251	-	-
1,170	-	73
272	-	828
19,735	-	-
<u>465,864</u>	<u>-</u>	<u>10,347</u>
725,323	-	-
247,476	-	198
100	-	-
7,791	-	-
10,500	-	-
538,262	-	7,960
163,054	6,900	1,636
44,532	-	1,561
4,938	-	-
1,723	-	-
1,950	-	-
<u>1,745,649</u>	<u>6,900</u>	<u>11,355</u>
<u>361,953</u>	<u>-</u>	<u>171,591</u>
<u>361,953</u>	<u>-</u>	<u>171,591</u>
1,902,903	-	-
116,827	-	23,183
<u>2,019,730</u>	<u>-</u>	<u>23,183</u>
<u>223,932</u>	<u>-</u>	<u>251,956</u>
<u>223,932</u>	<u>-</u>	<u>251,956</u>
449,540	-	460
5,560	-	105,210
<u>8,330,604</u>	<u>-</u>	<u>2,186,360</u>
<u>8,785,704</u>	<u>-</u>	<u>2,292,030</u>
<u>2,188,061</u>	<u>-</u>	<u>(67,695)</u>
<u>2,188,061</u>	<u>-</u>	<u>(67,695)</u>
2,925,000	-	-
<u>1,444,950</u>	<u>-</u>	<u>1,000</u>
<u>4,369,950</u>	<u>-</u>	<u>1,000</u>
<u>61,930,407</u>	<u>502,157</u>	<u>3,038,141</u>
<u>762,701</u>	<u>(502,157)</u>	<u>5,523,797</u>

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	675,404	675,404	675,404
Transfers out.....	-	-	-	(145,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	675,404	675,404	530,404
NET CHANGE IN FUND BALANCE.....	(610,212)	(4,122,637)	(4,732,849)	(4,732,849)
BUDGETARY FUND BALANCE, Beginning of year.....	-	9,789,024	9,789,024	9,789,024
BUDGETARY FUND BALANCE, End of year.....	\$(610,212)	\$5,666,387	\$5,056,175	\$5,056,175

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
972,238	-	296,834
(145,000)	-	-
<u>827,238</u>	-	<u>296,834</u>
1,589,939	(502,157)	5,820,631
<u>9,789,024</u>	-	-
<u>\$ 11,378,963</u>	<u>\$ (502,157)</u>	<u>\$ 5,820,631</u>

(Concluded)

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Retirement System Schedules of Funding Progress and Employer Contributions

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

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

MARBLEHEAD CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 77,353,879	\$ 98,858,864	\$ 21,504,985	78.2%	\$ 16,244,071	132.4%
01/01/08	84,442,905	93,908,490	9,465,585	89.9%	15,827,608	59.8%
01/01/06	69,105,082	82,948,269	13,843,187	83.3%	14,159,647	97.8%
01/01/04	64,490,373	76,875,640	12,385,267	83.9%	13,982,752	88.6%
01/01/02	60,615,356	71,022,123	10,406,767	85.3%	13,268,405	78.4%
01/01/00	54,015,622	63,939,027	9,923,405	84.5%	11,833,509	83.9%

See notes to required supplementary information.

MARBLEHEAD CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			Town of Marblehead	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2011	\$ 2,347,285	\$ 2,347,285	100%	\$ 2,305,578	98.22%
2010	2,347,285	2,347,285	100%	2,305,578	98.22%
2009	2,347,286	2,347,286	100%	2,300,130	97.99%
2008	2,266,267	2,266,267	100%	2,220,739	97.99%
2007	2,274,000	2,274,000	100%	2,232,565	98.18%

The Town's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

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

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

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2010	\$ -	\$ 139,225,063	\$ 139,225,063	0%	\$ 41,527,786	335.3%
7/1/2008	-	116,948,000	116,948,000	0%	34,447,000	339.5%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution (ARC)	Actual Contributions Made	Percentage of the ARC Contributed
2011	\$ 9,932,189	\$ 5,161,506	52%
2010	8,505,000	4,672,000	55%
2009	8,304,500	4,326,000	52%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	July 1, 2010
Actuarial cost method.....	Entry Age Normal Cost Method
Amortization method.....	Level percent of pay, assuming pay increases at 4.5%
Remaining amortization period.....	30 years as of July 1, 2010, closed

Actuarial Assumptions:

Investment rate of return.....	4.5%, pay-as-you-go scenario
Medical/drug cost trend rate.....	10% grading down to 5.0% over 10 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	642
Current active members.....	<u>700</u>
Total.....	<u><u>1,342</u></u>

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary information

During the fiscal year, the finance committee submits to the Town Meeting an operating budget for the proposed expenditures and other financing uses for the fiscal year commencing the following July 1st. The budget, as enacted by the Town Meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at Special Town Meetings or at the next Annual Town Meeting held prior to the end of the fiscal year. During the fiscal year the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$144,000 for this purpose in fiscal 2011 and transfers of \$67,401 were made. All unencumbered and unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by the Town Meeting for line items within departments. Typical line items are salaries, expense, and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at a special Town Meeting.

2. Budgetary – GAAP Reporting Reconciliation

The budgetary basis and modified accrual basis of accounting are substantially the same.

A reconciliation of budgetary-basis to GAAP-basis results is as follows:

Net change in fund balance - budgetary basis.....	\$ 1,589,939
<u>Basis of accounting differences:</u>	
Recognition of revenue for on-behalf payments.....	6,313,608
Recognition of expenditures for on-behalf payments.....	<u>(6,313,608)</u>
Net change in fund balance - GAAP basis (modified accrual).....	<u>\$ 1,589,939</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2011, actual expenditures exceeded appropriations for snow removal and state and county assessments by \$242,767 and \$67,695, respectively. The snow removal appropriation deficit will be raised in the fiscal year 2012 tax rate setting process as allowed by Massachusetts state finance law.

NOTE B – PENSION PLAN

Pensions for employees other than School Department teaching staff and certain school administrators are provided through the Town of Marblehead Contributory Retirement System (the System), a cost-sharing multiple employer defined benefit plan, administered by the Marblehead Contributory Retirement Board. Massachusetts contributory retirement system benefits are uniform from system to system, including the Massachusetts Teachers Retirement System. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

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

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

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

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

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

Other Supplementary Information

Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds:

Federal Grants - To account for grants from the Federal Government for various purposes. They are expended in accordance with the grant.

State Grants - To account for grants from the Commonwealth of Massachusetts for various purposes. They are expended in accordance with the grant.

Other Grants - To account for grants from individuals and foundations for various purposes. They are expended for the purpose designated by the grantor or benefactor.

Revolving Funds - To account for revolving funds specifically allowed by the laws of the Commonwealth of Massachusetts. These funds are expended for purposes specified by the enabling state statute or vote of the Town Meeting.

Receipts Reserved for Appropriation - To account for receipts set aside for specific purposes as allowed by the laws of the Commonwealth of Massachusetts. Receipts reserved for appropriation are transferred to the general fund when appropriated as part of the Town's annual budget.

Gifts - To account for receipts of various gifts and donations. They are expended for the purpose designated by the donor or benefactor.

Special Revenue Trust Funds - To account for contributions where both principal and investment earnings may be spent to support the government.

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2011

	<i>Special Revenue Funds</i>				
	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation
ASSETS					
Cash and cash equivalents.....	\$ 240,842	\$ -	\$ 457,422	\$ 532,577	\$ 2,743,030
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	-	45,995	825
Intergovernmental.....	31,992	757,571	-	-	-
Working capital deposit.....	-	-	-	-	-
TOTAL ASSETS.....	<u>\$ 272,834</u>	<u>\$ 757,571</u>	<u>\$ 457,422</u>	<u>\$ 578,572</u>	<u>\$ 2,743,855</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 113,700	\$ 97,842	\$ 516	\$ 114,220	\$ -
Due to other funds.....	-	315,054	-	-	-
Deferred revenues.....	-	251,046	-	17,136	825
TOTAL LIABILITIES.....	<u>113,700</u>	<u>663,942</u>	<u>516</u>	<u>131,356</u>	<u>825</u>
FUND BALANCES:					
Restricted.....	159,134	93,629	456,906	447,216	2,743,030
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 272,834</u>	<u>\$ 757,571</u>	<u>\$ 457,422</u>	<u>\$ 578,572</u>	<u>\$ 2,743,855</u>

<u>Gifts</u>	<u>Special Revenue Trust Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 219,027	\$ 3,148,001	\$ 7,340,899
-	-	46,820
-	-	789,563
-	10,000	10,000
<u>\$ 219,027</u>	<u>\$ 3,158,001</u>	<u>\$ 8,187,282</u>
\$ 31,001	\$ -	\$ 357,279
-	-	315,054
-	-	269,007
<u>31,001</u>	<u>-</u>	<u>941,340</u>
<u>188,026</u>	<u>3,158,001</u>	<u>7,245,942</u>
<u>\$ 219,027</u>	<u>\$ 3,158,001</u>	<u>\$ 8,187,282</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<i>Special Revenue Funds</i>				
	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation
REVENUES:					
Charges for services.....	\$ -	\$ -	\$ -	\$ 2,243,352	\$ 22,526
Fines and forfeitures.....	-	-	-	400	-
Intergovernmental.....	1,658,900	1,738,240	-	143,466	-
Departmental and other.....	-	-	227	288,006	-
Contributions.....	-	-	123,975	22,448	-
Investment income (loss).....	-	14	1,508	59	11,840
Miscellaneous.....	-	-	-	280,936	-
TOTAL REVENUES.....	1,658,900	1,738,254	125,710	2,978,667	34,366
EXPENDITURES:					
Current:					
General government.....	-	-	-	3,756	82,384
Public safety.....	1,554	112,856	-	276,872	-
Education.....	1,595,485	941,004	13,895	2,269,137	-
Public works.....	-	604,510	-	301,123	-
Human services.....	-	143,656	34	160,821	-
Culture and recreation.....	-	21,164	149,273	179,180	-
Employee benefits.....	460	-	-	-	-
TOTAL EXPENDITURES.....	1,597,499	1,823,190	163,202	3,190,889	82,384
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	61,401	(84,936)	(37,492)	(212,222)	(48,018)
OTHER FINANCING SOURCES (USES):					
Premium from issuance of debt.....	-	-	-	-	600,790
Transfers in.....	-	-	-	85,000	-
Transfers out.....	-	(12,900)	-	(31,859)	(292,404)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(12,900)	-	53,141	308,386
NET CHANGE IN FUND BALANCES.....	61,401	(97,836)	(37,492)	(159,081)	260,368
FUND BALANCES AT BEGINNING OF YEAR.....	97,733	191,465	494,398	606,297	2,482,662
FUND BALANCES AT END OF YEAR.....	\$ 159,134	\$ 93,629	\$ 456,906	\$ 447,216	\$ 2,743,030

Gifts	Special Revenue Trust Funds	Total Nonmajor Governmental Funds
\$ 1,688	\$ -	\$ 2,267,566
-	-	400
-	4,428	3,545,034
29,073	-	317,306
165,897	72,069	384,389
-	98,198	111,619
-	-	280,936
<u>196,658</u>	<u>174,695</u>	<u>6,907,250</u>
163,569	-	249,709
6,009	895	398,186
103,036	-	4,922,557
-	-	905,633
4,937	28,419	337,867
26,106	74,567	450,290
-	-	460
<u>303,657</u>	<u>103,881</u>	<u>7,264,702</u>
(106,999)	70,814	(357,452)
-	-	600,790
-	829	85,829
-	-	(337,163)
-	829	349,456
(106,999)	71,643	(7,996)
<u>295,025</u>	<u>3,086,358</u>	<u>7,253,938</u>
<u>\$ 188,026</u>	<u>\$ 3,158,001</u>	<u>\$ 7,245,942</u>

Internal Service Funds

*Medical Claims Fund - To account for payment of medical claims of the Town's employees and their covered dependents.

*Medex Claims Fund - To account for payment of medical claims of the Town's retired employees over the age of 65, as a supplement to Medicare.

Workers' Compensation Fund - To account for appropriations from the Town and investment earnings which accumulate to be expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

*In fiscal year 2009, the Town converted to a premium based health insurance plan for active employees and retirees. The Internal Service fund balances have been used to account for payment of claims incurred under the previous plan and excess funds have been appropriated for premium payments under the new plan.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2011

	Medical Claims	Medex Claims	Workers' Compensation	Total
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 254,878	\$ 266,415	\$ 580,504	\$ 1,101,797
Working capital deposit.....	14,889	1,036	-	15,925
TOTAL ASSETS.....	269,767	267,451	580,504	1,117,722
LIABILITIES				
CURRENT:				
Warrants payable.....	48	-	26,757	26,805
Accrued liabilities.....	26,322	5,807	-	32,129
Workers' compensation.....	-	-	282,631	282,631
Total current liabilities.....	26,370	5,807	309,388	341,565
NONCURRENT:				
Workers' compensation.....	-	-	404,488	404,488
TOTAL LIABILITIES.....	26,370	5,807	713,876	746,053
NET ASSETS				
Unrestricted.....	\$ <u>243,397</u>	\$ <u>261,644</u>	\$ <u>(133,372)</u>	\$ <u>371,669</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Medical Claims</u>	<u>Medex Claims</u>	<u>Workers' Compensation</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for services.....	\$ -	\$ -	\$ 274,430	\$ 274,430
OPERATING EXPENSES:				
Cost of interfund services provided.....	1,216,017	496,300	142,594	1,854,911
OPERATING INCOME (LOSS).....	(1,216,017)	(496,300)	131,836	(1,580,481)
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	9,011	6,085	4,207	19,303
CHANGE IN NET ASSETS.....	(1,207,006)	(490,215)	136,043	(1,561,178)
NET ASSETS AT BEGINNING OF YEAR.....	1,450,403	751,859	(269,415)	1,932,847
NET ASSETS AT END OF YEAR.....	<u>\$ 243,397</u>	<u>\$ 261,644</u>	<u>\$ (133,372)</u>	<u>\$ 371,669</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Medical Claims	Medex Claims	Workers' Compensation	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from interfund services provided.....	\$ -	\$ -	\$ 274,430	\$ 274,430
Payments for interfund services used.....	(1,227,805)	(514,061)	(131,363)	(1,873,229)
NET CASH FROM OPERATING ACTIVITIES.....	(1,227,805)	(514,061)	143,067	(1,598,799)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	9,011	6,085	4,207	19,303
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(1,218,794)	(507,976)	147,274	(1,579,496)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,473,672	774,391	433,230	2,681,293
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 254,878	\$ 266,415	\$ 580,504	\$ 1,101,797
<u>RECONCILIATION OF OPERATING INCOME (LOSS)</u>				
<u>TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ (1,216,017)	\$ (496,300)	\$ 131,836	\$ (1,580,481)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Changes in assets and liabilities:				
Working capital deposit.....	67,131	(340)	-	66,791
Warrants payable.....	48	-	26,468	26,516
Accrued liabilities.....	(78,967)	(17,421)	-	(96,388)
Workers' compensation.....	-	-	(15,237)	(15,237)
Total adjustments.....	(11,788)	(17,761)	11,231	(18,318)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (1,227,805)	\$ (514,061)	\$ 143,067	\$ (1,598,799)

Fiduciary Funds

Private Purpose Trust Funds:

Charity Funds - To account for contributions held by the Town to benefit private charities.

Scholarship Funds - To account for scholarship funds held by the Town to benefit individuals.

Other Funds - To account for other amounts held by the Town for the benefit of individuals or private organizations.

Agency Fund - To account for performance bonds and the collection and payment of hunting and fishing licenses, firearm permits, sales taxes, meals taxes, and dog licenses to the State, proceeds of extra work details to the Town employees, and school student activity accounts.

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Charity Funds</u>	<u>Scholarship Funds</u>	<u>Other Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents.....	\$ 2,334,690	\$ 923,188	\$ 143,026	\$ 3,400,904
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	-	175	-	175
Capital assets, net of accumulated depreciation.....	46,517	-	-	46,517
Capital assets, not being depreciated.....	<u>2,045</u>	<u>-</u>	<u>-</u>	<u>2,045</u>
TOTAL ASSETS.....	<u>2,383,252</u>	<u>923,363</u>	<u>143,026</u>	<u>3,449,641</u>
LIABILITIES				
Warrants payable.....	-	2,358	-	2,358
Other liabilities.....	<u>-</u>	<u>175</u>	<u>-</u>	<u>175</u>
TOTAL LIABILITIES.....	<u>-</u>	<u>2,533</u>	<u>-</u>	<u>2,533</u>
NET ASSETS				
Held in trust for other purposes.....	<u>\$ 2,383,252</u>	<u>\$ 920,830</u>	<u>\$ 143,026</u>	<u>\$ 3,447,108</u>

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Charity Funds	Scholarship Funds	Other Funds	Total
ADDITIONS:				
Contributions:				
Private donations.....	\$ 57,178	\$ -	\$ -	\$ 57,178
Net investment income:				
Interest.....	15,582	6,071	924	22,577
TOTAL ADDITIONS.....	72,760	6,071	924	79,755
DEDUCTIONS:				
Charitable payments.....	81,040	-	-	81,040
Depreciation.....	5,011	-	-	5,011
Educational scholarships.....	-	19,060	-	19,060
TOTAL DEDUCTIONS.....	86,051	19,060	-	105,111
CHANGE IN NET ASSETS.....	(13,291)	(12,989)	924	(25,356)
NET ASSETS AT BEGINNING OF YEAR.....	2,396,543	933,819	142,102	3,472,464
NET ASSETS AT END OF YEAR.....	\$ 2,383,252	\$ 920,830	\$ 143,026	\$ 3,447,108

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
ASSETS				
Cash and cash equivalents.....	\$ 153,095	\$ 387,804	\$ 388,590	\$ 152,309
Due from general fund.....	58,510	58,814	65,201	52,123
Total assets.....	\$ 211,605	\$ 446,618	\$ 453,791	\$ 204,432
LIABILITIES				
Accrued Payroll - Off Duty Work Details.....	\$ 314	\$ 23,983	\$ 22,931	\$ 1,366
Accrued Payroll - Dog License Fees.....	75	1,887	1,928	34
Due To Commonwealth:				
Firearms Permits.....	688	10,713	10,563	838
Meals Tax.....	39	839	706	172
Sales Tax.....	90	384	440	34
Due To Other Governments:				
Housing Authority.....	(134)	6,516	6,973	(591)
Due To Student Activities.....	153,096	387,804	388,590	152,310
Performance Bonds.....	57,437	14,492	21,660	50,269
Total liabilities.....	\$ 211,605	\$ 446,618	\$ 453,791	\$ 204,432

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Statistical Section

Statistical Section

Statistical tables differ from financial statements since they usually cover more than one fiscal year and may present nonaccounting data. The following tables reflect social and economic data, financial trends, and fiscal capacity.



Photo by Mike Porter

The Old Town House, built in 1727, located in Town Square in Marblehead, Massachusetts is predominant in this idyllic winter setting.

Statistical Section

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Net Assets By Component

Last Nine Fiscal Years

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt.....	\$ 54,031,802	\$ 62,029,368	\$ 63,376,136	\$ 45,030,306	\$ 64,248,109	\$ 67,584,804	\$ 68,262,258	\$ 70,685,450	\$ 71,782,028
Restricted.....	4,718,510	7,367,239	8,369,340	8,514,978	9,369,209	9,566,795	9,162,785	9,422,889	9,048,458
Unrestricted.....	<u>6,393,833</u>	<u>2,063,935</u>	<u>1,019,991</u>	<u>23,885,631</u>	<u>3,025,735</u>	<u>2,512,954</u>	<u>2,796,688</u>	<u>(509,557)</u>	<u>(6,852,476)</u>
Total governmental activities net assets.....	\$ <u>65,144,145</u>	\$ <u>71,460,542</u>	\$ <u>72,765,467</u>	\$ <u>77,430,915</u>	\$ <u>76,643,053</u>	\$ <u>79,664,553</u>	\$ <u>80,221,731</u>	\$ <u>79,598,782</u>	\$ <u>73,978,010</u>
Business-type activities									
Invested in capital assets, net of related debt.....	28,851,221	30,152,007	31,295,881	31,576,803	31,828,431	31,548,537	32,097,547	33,710,827	34,878,749
Unrestricted.....	<u>12,389,899</u>	<u>11,398,374</u>	<u>10,487,961</u>	<u>10,905,805</u>	<u>11,965,405</u>	<u>15,044,596</u>	<u>15,349,058</u>	<u>14,446,130</u>	<u>15,306,455</u>
Total business-type activities net assets.....	\$ <u>41,241,120</u>	\$ <u>41,550,381</u>	\$ <u>41,783,843</u>	\$ <u>42,482,608</u>	\$ <u>43,793,836</u>	\$ <u>46,593,133</u>	\$ <u>47,446,605</u>	\$ <u>48,156,957</u>	\$ <u>50,185,204</u>
Primary government									
Invested in capital assets, net of related debt.....	82,883,023	92,181,375	94,672,019	76,607,109	96,076,540	99,133,341	100,359,805	104,396,277	106,660,777
Restricted.....	4,718,510	7,367,239	8,369,340	8,514,978	9,369,209	9,566,795	9,162,785	9,422,889	9,048,458
Unrestricted.....	<u>18,783,732</u>	<u>13,462,309</u>	<u>11,507,953</u>	<u>34,791,436</u>	<u>14,991,140</u>	<u>17,557,550</u>	<u>18,145,746</u>	<u>13,936,573</u>	<u>8,453,979</u>
Total primary government net assets.....	\$ <u>106,385,265</u>	\$ <u>113,010,923</u>	\$ <u>114,549,312</u>	\$ <u>119,913,523</u>	\$ <u>120,436,889</u>	\$ <u>126,257,686</u>	\$ <u>127,668,336</u>	\$ <u>127,755,739</u>	\$ <u>124,163,214</u>

Changes in Net Assets

Last Nine Fiscal Years

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
General government.....	\$ 2,938,994	\$ 3,365,848	\$ 3,391,116	\$ 3,270,652	\$ 3,524,468	\$ 3,490,002	\$ 3,709,427	\$ 3,763,970	\$ 3,764,556
Public safety.....	7,867,199	7,957,974	7,787,203	7,980,128	9,019,171	9,118,679	10,129,416	10,288,405	10,586,017
Education.....	32,368,949	36,143,224	38,303,976	41,023,533	42,814,037	43,648,218	49,890,761	52,081,576	53,942,639
Public works.....	5,654,141	5,101,138	4,903,611	4,879,129	5,173,056	5,407,535	5,538,314	6,331,557	6,214,732
Landfill closure.....	-	-	-	-	4,900,000	1,100,000	-	1,800,000	2,314,578
Human services.....	914,967	929,242	826,827	1,084,279	1,115,550	1,197,716	1,147,405	1,120,478	1,150,910
Culture and recreation.....	2,361,916	2,301,611	2,427,894	2,438,794	2,563,548	2,586,664	2,926,073	3,019,415	3,111,617
Interest.....	1,451,423	1,059,107	1,847,413	2,214,597	1,326,580	1,484,146	1,371,083	899,311	1,319,979
Total government activities expenses.....	53,557,589	56,858,144	59,488,040	62,891,112	70,436,410	68,032,960	74,712,479	79,304,712	82,405,028
Business-type activities:									
Water.....	2,223,297	2,312,442	2,408,244	2,575,458	2,900,743	2,825,383	3,065,981	3,023,598	3,481,486
Sewer.....	3,061,348	2,980,770	3,489,015	3,274,040	3,563,775	3,044,040	3,278,347	3,404,568	3,114,228
Municipal Light.....	10,381,542	10,805,232	10,941,345	13,344,444	12,768,585	12,879,054	14,643,929	13,678,068	13,797,177
Harbor.....	584,471	576,851	455,038	620,604	578,842	573,268	658,183	581,573	639,917
Total business-type activities expenses.....	16,250,658	16,675,295	17,293,642	19,814,546	19,764,945	19,321,745	21,646,440	20,687,807	21,032,808
Total primary government expenses.....	\$ 69,808,247	\$ 73,533,439	\$ 76,781,682	\$ 82,705,658	\$ 90,201,355	\$ 87,354,705	\$ 96,358,919	\$ 99,992,519	\$ 103,437,836
Program Revenues									
Governmental activities:									
Public Safety charges for services.....	\$ 681,523	\$ 744,398	\$ 990,605	\$ 1,072,931	\$ 959,016	\$ 852,159	\$ 997,699	\$ 1,216,490	\$ 994,204
Education charges for services.....	1,144,334	1,156,322	1,151,263	1,185,631	1,192,449	1,693,799	1,719,034	1,763,683	1,870,151
Public Works charges for services.....	602,236	711,153	777,895	745,750	764,571	742,708	644,406	634,244	668,395
Other charges for services.....	1,663,552	920,442	965,873	1,013,743	993,793	1,049,707	964,181	971,731	954,162
Operating grants and contributions.....	9,961,379	10,236,741	11,965,143	13,534,764	13,072,665	13,164,337	15,215,908	15,041,092	15,253,787
Capital grant and contributions.....	6,016,683	6,184,306	-	-	933,198	467,866	2,033,978	3,817,694	761,615
Total government activities program revenues.....	20,069,707	19,953,362	15,850,779	17,552,819	17,915,692	17,970,576	21,575,206	23,444,934	20,502,314
Business-type activities:									
Charges for services - Water.....	2,357,092	2,404,325	2,985,712	3,084,796	3,097,859	3,426,794	3,395,280	3,251,067	3,904,213
Charges for services - Sewer.....	3,054,481	3,098,366	3,897,788	3,254,460	3,566,868	3,711,954	3,493,052	3,694,883	3,730,846
Charges for services - Municipal Light.....	11,524,933	11,747,745	11,350,011	13,845,358	13,837,216	13,410,728	15,185,296	14,233,656	15,160,793
Charges for services - Harbor.....	582,103	571,937	615,946	608,305	619,480	638,397	627,795	591,969	632,242
Operating grants and contributions.....	-	-	25,000	3,473	24,067	8,144	13,255	22,634	17,260
Total business-type activities program revenues.....	17,518,609	17,822,373	18,874,457	20,796,392	21,145,490	21,196,017	22,714,678	21,794,209	23,445,354
Total primary government program revenues.....	\$ 37,588,316	\$ 37,775,735	\$ 34,725,236	\$ 38,349,211	\$ 39,061,182	\$ 39,166,593	\$ 44,289,884	\$ 45,239,143	\$ 43,947,668
Net (Expense)/Revenue									
Governmental activities.....	\$ (33,487,882)	\$ (36,904,782)	\$ (43,637,261)	\$ (45,338,293)	\$ (52,520,718)	\$ (50,062,384)	\$ (53,137,273)	\$ (55,859,778)	\$ (61,902,714)
Business-type activities.....	1,267,951	1,147,078	1,580,815	1,116,626	1,380,545	1,874,272	1,068,238	1,106,402	2,412,546
Total primary government net expense.....	\$ (32,219,931)	\$ (35,757,704)	\$ (42,056,446)	\$ (44,221,667)	\$ (51,140,173)	\$ (48,188,112)	\$ (52,069,035)	\$ (54,753,376)	\$ (59,490,168)
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Real estate and personal property taxes, net of tax refunds payable.....	\$ 34,614,791	\$ 37,663,340	\$ 39,608,751	\$ 44,052,622	\$ 44,897,758	\$ 46,455,796	\$ 48,062,992	\$ 50,046,317	\$ 51,217,033
Motor vehicle excise taxes.....	2,816,116	2,815,852	3,008,370	3,033,965	2,908,531	2,856,787	2,717,571	2,656,948	2,752,897
Penalties and interest on taxes.....	112,354	128,811	142,047	134,274	174,210	152,437	153,284	192,715	226,937
Payments in lieu of taxes.....	75,499	-	4,821	-	-	-	-	-	-
Grants and contributions not restricted to specific programs.....	1,174,530	1,104,617	1,120,708	1,254,124	1,908,659	1,693,092	1,479,237	1,164,113	1,110,208
Unrestricted investment income.....	517,360	494,060	369,109	811,058	1,299,063	1,366,744	694,664	547,427	389,792
Gain (loss) on disposal of capital assets.....	(26,635)	-	-	-	-	-	-	-	-
Miscellaneous.....	2,719	-	-	61,300	-	-	-	-	-
Transfers.....	57,508	1,026,962	688,377	656,398	544,635	559,028	586,703	629,309	585,075
Total governmental activities.....	39,344,242	43,233,642	44,942,183	50,003,741	51,732,856	53,083,884	53,694,451	55,236,829	56,281,942
Business-type activities:									
Boat excise.....	131,449	137,920	139,068	134,780	142,145	134,306	140,197	140,873	136,513
Unrestricted investment income.....	107,863	51,225	104,009	238,535	333,173	337,377	231,740	92,386	64,263
Settlements and refunds.....	-	-	-	-	-	1,012,370	-	-	-
Transfers.....	(57,508)	(1,026,962)	(688,377)	(656,398)	(544,635)	(559,028)	(586,703)	(629,309)	(585,075)
Total primary government.....	\$ 181,804	\$ (837,817)	\$ (445,300)	\$ (283,083)	\$ (69,317)	\$ 925,025	\$ (214,766)	\$ (396,050)	\$ (384,299)
Changes in Net Assets									
Governmental activities.....	\$ 5,856,360	\$ 6,328,860	\$ 1,304,922	\$ 4,665,448	\$ (787,862)	\$ 3,021,500	\$ 557,178	\$ (622,949)	\$ (5,620,772)
Business-type activities.....	1,449,755	309,261	1,135,515	833,543	1,311,228	2,799,297	853,472	710,352	2,028,247
Total primary government.....	\$ 7,306,115	\$ 6,638,121	\$ 2,440,437	\$ 5,498,991	\$ 523,366	\$ 5,820,797	\$ 1,410,650	\$ 87,403	\$ (3,592,525)

Fund Balances, Governmental Funds

Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Reserved.....	\$ 2,495,896	\$ 590,889	\$ 346,436	\$ 242,334	\$ 329,471	\$ 347,480	\$ 795,436	\$ 565,154	\$ 610,212	\$ -
Unreserved.....	3,196,616	4,600,668	3,321,417	3,468,375	4,905,746	5,434,575	7,183,747	8,349,653	9,178,812	-
Assigned.....	-	-	-	-	-	-	-	-	-	5,097,591
Unassigned.....	-	-	-	-	-	-	-	-	-	6,281,372
Total general fund.....	\$ 5,692,512	\$ 5,191,557	\$ 3,667,853	\$ 3,710,709	\$ 5,235,217	\$ 5,782,055	\$ 7,979,183	\$ 8,914,807	\$ 9,789,024	\$ 11,378,963
All Other Governmental Funds										
Reserved.....	\$ -	\$ 3,119,714	\$ 3,160,017	\$ 3,242,776	\$ 3,218,824	\$ 3,265,196	\$ 3,309,253	\$ 3,348,145	\$ 3,379,233	\$ -
Unreserved, reported in:										
Special revenue funds.....	3,470,693	3,335,913	4,201,446	5,898,953	4,956,638	6,612,669	6,702,589	6,902,667	7,253,938	-
Capital projects funds.....	2,364,897	5,440,999	2,137,325	13,780	(3,448,847)	(2,231,042)	1,690,445	9,471,649	1,813,173	-
Permanent funds.....	-	670,784	726,568	585,746	1,243,096	1,454,201	1,430,805	1,488,902	1,420,238	-
Nonspendable.....	-	-	-	-	-	-	-	-	-	3,379,232
Restricted.....	-	-	-	-	-	-	-	-	-	9,044,027
Total all other governmental funds.....	\$ 5,835,590	\$ 12,567,410	\$ 10,225,356	\$ 9,741,255	\$ 5,969,711	\$ 9,101,024	\$ 13,133,092	\$ 21,211,363	\$ 13,866,582	\$ 12,423,259

Fiscal year 2002 excludes Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.
The Town implemented GASB 54 in fiscal year 2011, fund balances prior to fiscal year 2011 have been reported in the pre-GASB 54 format.

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

Fiscal Year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 33,412,393	\$ 34,609,845	\$ 37,536,410	\$ 39,636,668	\$ 43,703,685	\$ 44,942,601	\$ 46,419,642	\$ 47,865,181	\$ 49,720,655	\$ 51,170,197
Motor vehicle excise taxes.....	2,684,652	2,810,072	2,809,905	3,014,927	3,026,225	2,921,041	2,839,549	2,756,859	2,649,742	2,757,607
Penalties and interest on taxes.....	125,118	112,354	128,811	142,047	134,274	174,210	152,437	153,284	192,732	226,937
Charges for services.....	2,417,398	2,328,201	2,266,211	2,250,402	2,321,164	2,423,866	2,896,961	2,933,547	3,017,786	2,984,996
Licenses and permits (**and fees).....	512,478	445,850	557,746	805,077	867,875	692,993	604,058	648,799	848,233	729,262
Fines and forfeitures.....	185,354	186,801	184,034	209,571	185,569	162,480	193,511	167,209	157,626	141,860
Intergovernmental.....	9,375,238	10,004,918	10,361,141	12,013,630	34,856,476	32,613,925	15,110,217	18,339,553	19,023,864	17,282,267
Departmental and other.....	-	301,228	351,221	363,625	339,638	399,086	389,996	269,957	294,815	317,306
Contributions.....	364,035	448,003	366,484	708,368	383,178	814,817	537,030	599,738	439,403	461,556
Investment income.....	769,304	482,227	487,621	355,094	787,540	1,250,722	1,299,999	633,687	524,246	382,329
Miscellaneous.....	402,121	375,330	188,506	258,863	356,564	255,420	323,821	321,609	304,615	329,000
Total Revenue.....	50,248,091	52,104,829	55,238,090	59,758,272	86,962,188	86,651,161	70,767,221	74,689,423	77,173,717	76,783,317
Expenditures:										
General government.....	1,749,068	1,590,640	1,750,424	1,838,779	1,875,936	2,109,919	2,056,400	2,055,385	2,192,414	2,188,589
Public safety.....	5,859,514	5,948,722	5,972,372	5,873,710	5,764,771	6,322,114	6,367,594	6,663,357	6,706,967	6,916,177
Education.....	22,929,034	21,804,045	24,776,903	25,346,557	27,185,424	28,195,979	30,042,340	31,437,324	32,711,645	33,258,875
Public works.....	4,177,068	4,532,315	3,887,512	3,641,106	3,507,547	3,800,613	3,762,533	3,641,840	4,338,817	4,095,893
Human services.....	810,067	744,629	647,358	551,201	798,590	811,195	889,949	804,745	777,377	805,497
Culture and recreation.....	1,862,226	1,715,371	1,609,337	1,743,082	1,731,995	1,606,584	1,819,561	2,019,758	1,945,935	2,035,638
Pension benefits.....	5,080,649	5,571,615	6,137,142	6,533,588	6,728,821	7,101,736	7,252,902	7,771,803	8,117,079	8,333,338
Property and liability insurance.....	157,751	245,545	304,088	323,166	334,103	345,231	330,485	277,368	206,956	223,932
Employee benefits.....	3,604,154	3,895,920	4,844,001	6,153,016	8,884,059	9,125,175	9,242,492	9,716,952	9,999,049	8,786,164
State and county charges.....	596,520	1,824,080	1,714,756	2,094,128	2,217,767	2,156,712	1,340,304	1,457,485	1,719,351	2,188,061
Capital outlay.....	27,049,754	14,237,109	13,481,291	4,167,893	4,500,085	2,161,981	8,520,528	7,463,678	14,103,307	6,187,452
Debt service:										
Principal.....	1,775,000	1,755,000	1,655,000	2,269,726	23,995,637	17,809,637	1,745,000	1,615,000	2,820,000	3,008,000
Interest.....	1,684,707	1,640,631	1,622,294	1,958,022	2,585,246	1,984,064	1,256,791	1,516,966	1,601,955	1,444,950
Total Expenditures.....	77,335,512	65,505,622	68,402,478	62,493,974	90,109,981	83,530,940	74,626,879	76,441,661	87,240,852	79,472,566
Excess of revenues over (under) expenditures.....	(27,087,421)	(13,400,793)	(13,164,388)	(2,735,702)	(3,147,793)	3,120,221	(3,859,658)	(1,752,238)	(10,067,135)	(2,689,249)
Other Financing Sources (Uses)										
Issuance of debt.....	40,600,000	15,400,000	8,000,000	-	-	13,682,000	9,496,500	9,960,500	2,618,000	1,650,000
Premium from issuance of debt.....	165,638	509,739	471,668	1,806,081	197,483	13,295	33,326	218,930	349,262	600,790
Proceeds from bonds and notes.....	-	-	-	37,510,274	15,984,637	-	-	9,496,500	11,782,000	13,682,000
Payments of current refunded debt.....	-	-	-	(37,510,274)	(15,984,637)	-	-	(9,496,500)	(11,782,000)	(13,682,000)
Capital lease financing.....	-	-	-	-	46,875	-	-	-	-	-
Transfers in.....	711,238	537,488	2,514,566	2,256,375	2,297,989	2,002,892	2,104,004	2,061,179	3,947,500	3,557,318
Transfers out.....	(899,708)	(679,980)	(1,687,604)	(1,767,998)	(1,641,591)	(1,458,257)	(1,544,976)	(1,474,476)	(3,318,191)	(2,972,243)
Total other financing sources (uses).....	40,577,168	15,767,247	9,298,630	2,294,458	900,756	14,239,930	10,088,854	10,766,133	3,596,571	2,835,865
Net change in fund balances.....	\$ 13,489,747	\$ 2,366,454	\$ (3,865,758)	\$ (441,244)	\$ (2,247,037)	\$ 17,360,151	\$ 6,229,196	\$ 9,013,895	\$ (6,470,564)	\$ 146,616
Debt service as a percentage of noncapital expenditure:	6.88%	6.62%	5.97%	7.25%	6.20%	4.68%	4.54%	4.54%	6.05%	6.08%

Fiscal year 2002 excludes Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.

Fiscal year 2002 includes fees with licenses and permits

In fiscal year 2006 the debt service % has been adjusted for the principal payment of \$21,275,637 from a state grant.

In fiscal year 2007 the debt service % has been adjusted for the principal payment of \$15,984,637 from a state grant.

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

Last Ten Fiscal Years

Fiscal Year	Assessed and Actual Values and Tax Rates								
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Direct Rate	Total Town Value
2002	\$ 3,334,739,063	\$ 9.50	\$ 145,486,042	\$ 17,847,070	\$ 17,974,530	\$ 181,307,642	\$ 9.50	\$ 9.54	\$ 3,516,046,705
2003	3,904,694,030	8.42	155,455,505	18,408,805	21,508,430	195,372,740	8.42	8.47	4,100,066,770
2004 (1)	4,262,454,683	8.48	162,486,031	17,785,900	23,082,370	203,354,301	8.48	8.48	4,465,808,984
2005	4,596,303,034	8.26	175,052,553	19,390,500	36,175,490	230,618,543	8.26	8.27	4,826,921,577
2006	5,007,339,729	8.43	184,593,258	17,596,200	33,605,700	235,795,158	8.43	8.42	5,243,134,887
2007 (1)	5,579,215,064	7.76	210,417,304	18,720,900	35,424,740	264,562,944	7.76	7.76	5,843,778,008
2008	5,350,189,480	8.34	205,592,484	18,573,700	34,195,980	258,362,164	8.34	8.34	5,608,551,644
2009	5,088,265,598	8.99	198,014,716	20,145,800	43,723,950	261,884,466	8.99	8.99	5,350,150,064
2010 (1)	4,993,336,363	9.57	192,606,528	20,090,100	43,380,290	256,076,918	9.57	9.57	5,249,413,281
2011	4,764,628,638	10.21	192,325,493	18,290,900	56,716,040	267,332,433	10.21	10.21	5,031,961,071

(1) Revaluation Year

Source: Town of Marblehead, Assessor's Department

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

Principal Taxpayers

Current Year and Nine Years Ago

Name	2011			2002		
	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Moore, Edward T., Trust	\$ 52,439,900	1	1.04%	\$ 31,351,100	1	0.89%
Rockett, J. Hillary	30,451,500	2	0.61%	24,424,100	2	0.69%
Algonquin Gas Transmission Co.	29,422,800	3	0.58%	-	-	-
Bessom Associates	17,382,400	4	0.35%	10,184,600	4	0.29%
Eastern Yacht Club	14,033,400	5	0.28%	10,847,400	3	0.31%
Angelo Arena	9,917,200	6	0.20%	8,492,500	5	0.24%
Peter S. Lynch	9,236,900	7	0.18%	-	-	-
National Grid	9,158,310	8	0.18%	-	-	-
James Crosby	8,617,400	9	0.17%	7,050,100	7	0.20%
Philip A. Gianatasio	7,972,400	10	0.16%	-	-	-
Corinthian Yacht Club	-	-	-	7,811,500	6	0.22%
Robert W. Green	-	-	-	5,884,100	8	0.17%
Bell Atlantic	-	-	-	5,471,900	9	0.16%
Boston Gas Company (Keyspan)	-	-	-	5,263,230	10	0.15%
	<u>\$ 188,632,210</u>		<u>3.75%</u>	<u>\$ 116,780,530</u>		<u>3.32%</u>

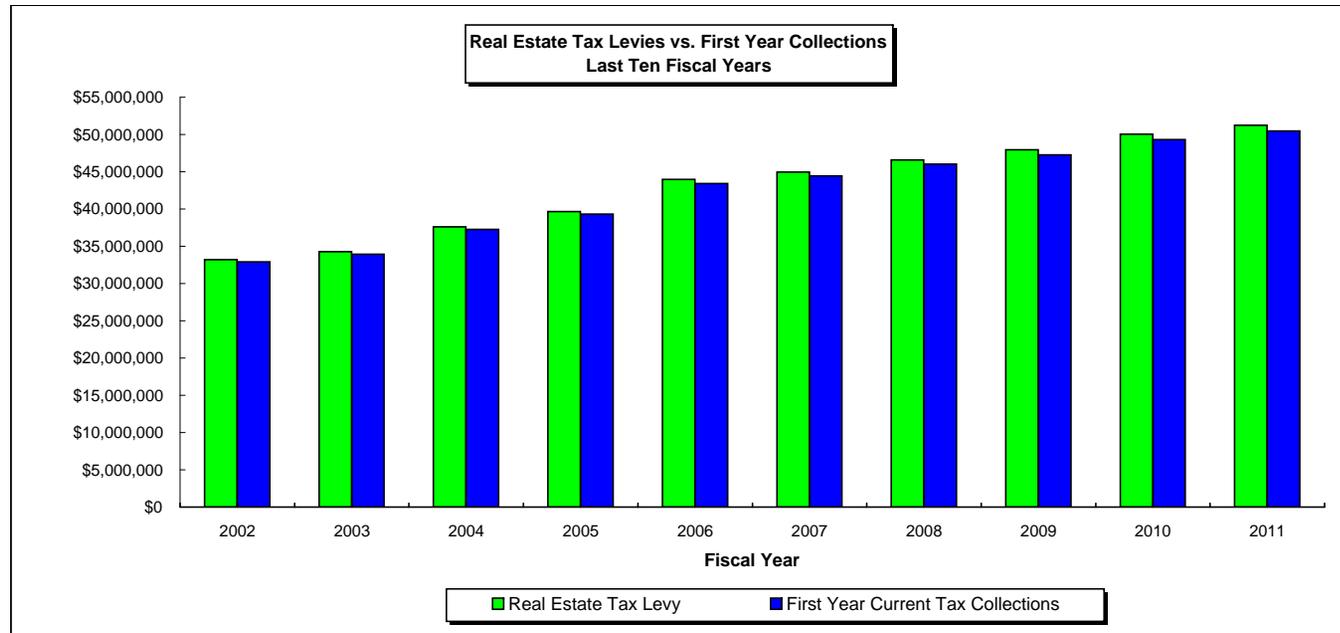
Source: Town of Marblehead, Assessor's Department

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	(2) Total Tax Levy	Less Abatements & Exemptions	(2) Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
2002	\$ 33,402,444	\$ 184,539	\$ 33,217,905	\$ 32,900,353	99.0%	\$ 259,692	\$ 33,160,044	99.83%
2003	34,497,302	240,718	34,256,584	33,930,910	99.0%	249,674	34,180,585	99.78%
2004 (1)	37,870,060	282,314	37,587,746	37,251,701	99.1%	258,079	37,509,780	99.79%
2005	39,870,372	199,264	39,671,108	39,322,124	99.1%	229,540	39,551,665	99.70%
2006	44,199,627	212,216	43,987,411	43,414,941	98.7%	393,466	43,808,407	99.59%
2007 (1)	45,347,717	383,435	44,964,282	44,430,925	98.8%	345,563	44,776,488	99.58%
2008	46,775,321	211,367	46,563,954	46,024,701	98.8%	349,933	46,374,634	99.59%
2009	48,097,849	162,863	47,934,986	47,278,421	98.6%	438,987	47,717,409	99.55%
2010 (1)	50,236,558	185,806	50,050,752	49,329,485	98.6%	429,851	49,759,336	99.42%
2011	51,376,323	156,353	51,219,970	50,460,080	98.5%	-	50,460,080	98.52%

Source: Town of Marblehead's, Finance Department



(1) Revaluation year.

(2) Includes omitted and revised assessments.

Ratios of Outstanding Debt and General Bonded Debt

Last Ten Fiscal Years

Fiscal Year	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities Debt			
				General Obligation Bonds (2)	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2002	20,254	\$ 984,875,363	\$ 3,516,046,705	\$ 9,570,000	\$ 472	0.97%	0.27%
2003	20,158	999,811,391	4,097,066,770	8,315,000	412	0.83%	0.20%
2004	20,461	1,035,136,605	4,465,808,984	6,660,000	325	0.64%	0.15%
2005	21,360	1,102,230,010	4,826,921,577	30,880,000	1,446	2.80%	0.64%
2006	20,482	1,078,061,450	5,243,134,887	28,410,000	1,387	2.64%	0.54%
2007	20,384	1,094,361,327	5,843,778,008	26,585,000	1,304	2.43%	0.45%
2008	20,039	1,097,356,003	5,608,551,644	24,840,000	1,240	2.26%	0.44%
2009	20,449	1,142,199,344	5,350,150,064	23,225,000	1,136	2.03%	0.43%
2010	20,377	1,160,939,921	5,249,413,281	28,080,000	1,378	2.42%	0.53%
2011	19,808	1,151,098,905	5,031,961,071	37,790,000	1,908	3.28%	0.75%

Fiscal Year	Total Primary Government				
	General Obligation Bonds	Total Debt Outstanding	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
2002	815,000	\$ 10,385,000	\$ 513	1.05%	0.30%
2003	655,000	8,970,000	445	0.90%	0.22%
2004	495,000	7,155,000	350	0.69%	0.16%
2005	335,000	31,215,000	1,461	2.83%	0.65%
2006	180,000	28,590,000	1,396	2.65%	0.55%
2007	135,000	26,720,000	1,311	2.44%	0.46%
2008	90,000	24,930,000	1,244	2.27%	0.44%
2009	45,000	23,270,000	1,138	2.04%	0.43%
2010	-	28,080,000	1,378	2.42%	0.53%
2011	-	37,790,000	1,908	3.28%	0.75%

(1) Sewer, Water, Harbor and Electric Enterprise Funds
 (2) Does not include BANs that have been classified as long-term debt.
 Source: Audited Financial Statements, U. S. Census

Direct and Overlapping Governmental Activities Debt

As of June 30, 2011

<u>Town of Marblehead, Massachusetts</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
North Shore Regional Vocational Technical School District..... \$	1,005,000	1.7740%	\$ 17,829
South Essex Sewerage District.....	86,797,963	6.8096%	5,910,594
Massachusetts Water Resource Authority.....	2,034,145,000	0.9950%	<u>20,239,743</u>
Subtotal, overlapping debt.....			26,168,166
Town direct debt.....			<u>37,790,000</u>
Total direct and overlapping debt.....			<u>\$ 63,958,166</u>

Source: Town of Marblehead's, Finance Department

Note: The Town obtains the debt outstanding and estimated percentages directly from the entities.

Computation of Legal Debt Margin

Last Ten Fiscal Years

	Fiscal Year									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Equalized valuation.....	\$ <u>2,811,457,400</u>	\$ <u>3,815,051,700</u>	\$ <u>3,815,051,700</u>	\$ <u>4,841,734,800</u>	\$ <u>5,582,874,900</u>	\$ <u>5,582,874,900</u>	\$ <u>5,976,188,400</u>	\$ <u>5,976,188,400</u>	\$ <u>5,580,750,300</u>	\$ <u>5,580,750,300</u>
Debt Limit - 5% of equalized valuation.....	140,572,870	190,752,585	190,752,585	242,086,740	279,143,745	279,143,745	298,809,420	298,809,420	279,037,515	279,037,515
Less:										
Total debt applicable to limitation.....	<u>10,885,000</u>	<u>8,970,000</u>	<u>7,155,000</u>	<u>31,215,000</u>	<u>28,590,000</u>	<u>26,720,000</u>	<u>34,426,500</u>	<u>23,270,000</u>	<u>28,080,000</u>	<u>37,790,000</u>
Legal debt margin.....	\$ <u><u>129,687,870</u></u>	\$ <u><u>181,782,585</u></u>	\$ <u><u>183,597,585</u></u>	\$ <u><u>210,871,740</u></u>	\$ <u><u>250,553,745</u></u>	\$ <u><u>252,423,745</u></u>	\$ <u><u>264,382,920</u></u>	\$ <u><u>275,539,420</u></u>	\$ <u><u>250,957,515</u></u>	\$ <u><u>241,247,515</u></u>
Total debt applicable to the limit as a percentage of debt limit.....	8%	5%	4%	15%	11%	11%	13%	8%	11%	16%

Source: Town of Marblehead's, Finance Department

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2002	20,254	\$ 984,875,363	\$ 48,626	41.9	2,875	4.00%
2003	20,158	999,811,391	49,599	41.9	2,970	3.90%
2004	20,461	1,035,136,605	50,591	41.9	3,003	3.60%
2005	21,360	1,102,230,010	51,603	41.9	3,067	3.30%
2006	20,482	1,078,061,450	52,635	41.9	3,133	3.00%
2007	20,384	1,094,361,327	53,687	41.9	3,242	3.70%
2008	20,039	1,097,356,003	54,761	41.9	3,212	4.00%
2009	20,449	1,142,204,180	55,856	41.9	3,262	6.80%
2010	20,377	1,160,946,181	56,973	41.9	3,232	6.60%
2011	19,808	1,151,098,905	58,113	41.9	3,232	5.40%

Source: U. S. Census, Division of Local Services
 Median age is based on most recent census data

Principal Employers
Current and Two Years Ago

Employer	Nature of Business	2011			2008 (a)		
		Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Town of Marblehead	Municipal Government	683	1	14.20%	673	1	13.40%
Marblehead/Swampscott YMCA	Recreational	185	2	3.85%	125	5	2.49%
Devereux Nursing Home	Health Care	138	3	2.87%	123	6	2.69%
Lafayette Nursing Home	Health Care	125	4	2.60%	125	4	2.49%
Eastern Yacht Club	Yacht Club, Tennis	110	5	2.29%	220	2	2.49%
Corinthian Yacht Club	Yacht Club	102	6	2.12%	135	3	2.45%
Tedesco Country Club	Country Club	101	7	2.10%	120	7	1.79%
Crosby's Marketplace	Food Market	88	8	1.83%	90	8	2.39%
Boston Yacht Club	Yacht Club	70	9	1.46%	80	9	1.79%
National Grand Bank	Banking	54	10	1.12%	60	10	1.19%

(a) GASB Statement 44 requires information be reported for the current period and the period nine years prior. Information regarding the Town's principal employers prior to 2008 was not available.

Source: Town of Marblehead, Assessor's Department's survey of large employers

Source of total employment : Mass. Executive Office of Labor and Workforce Development

Full-time Equivalent Town Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government.....	24.50	24.50	23.25	23.25	22.50	22.75	22.75	22.75	22.75	22.75
Public safety.....	58.50	56.25	58.50	58.50	55.50	55.50	55.75	56.00	56.00	55.75
Fire.....	42.00	42.00	42.00	42.50	40.50	42.50	42.50	42.50	42.50	42.50
Education.....	414.30	424.20	426.00	448.40	466.32	474.67	479.79	488.11	487.71	488.01
Public works.....	39.50	39.00	37.00	36.25	35.25	36.45	35.95	34.25	36.10	36.18
Human services.....	7.00	6.75	6.75	6.00	6.50	6.50	7.00	7.75	8.18	8.18
Culture and recreation.....	29.00	32.75	30.75	28.00	28.00	28.75	29.25	28.50	29.00	29.25
Total.....	614.80	625.45	624.25	642.90	654.57	667.12	672.99	679.86	682.24	682.62

Source: Town Records

Operating Indicators by Function/Program

Last Ten Fiscal Years

Fiscal Year

Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Physical arrests.....	226	284	283	317	285	340	204	306	250	146
Motor vehicle violations.....	880	1,249	1,488	1,309	3,110	1,499	1,363	2,310	2,118	1,443
Parking violations.....	5,714	4,879	4,995	4,998	3,545	3,752	4,119	3,242	3,039	2,230
Fire										
Inspections.....	1,467	1,622	1,622	1,860	1,707	1,651	1,738	1,618	1,817	2,160
Emergency responses.....	2,219	2,105	2,105	2,347	2,167	2,361	2,378	2,341	2,396	2,540
Libraries										
Volumes in circulation.....	115,771	118,504	119,867	120,989	118,078	117,041	127,278	123,463	125,975	126,230
Total volumes borrowed.....	219,458	227,481	212,263	210,510	208,820	203,170	204,172	218,310	240,518	226,953
Water										
Service connections.....	7,869	7,877	7,877	8,004	7,459	7,962	8,080	8,080	8,080	7,991
Consumption in gallons.....	1,873,000	1,915,100	1,915,100	1,930,000	2,016,000	1,851,800	1,993,000	1,993,000	1,993,000	1,815,000
Daily consumption.....	3,296,000	3,557,000	3,557,000	3,054,000	3,666,000	3,803,000	3,820,000	3,820,000	3,820,000	4,118,000
Sewer										
Service connections.....	7,789	7,792	7,792	7,901	7,223	7,773	7,883	7,883	8,160	7,883
Daily average collection.....	1,800,000	1,800,000	1,800,000	2,448,387	2,400,000	2,244,000	2,244,000	2,244,000	2,244,000	2,244,000

Source: Various Town departments

Town of Marblehead, Massachusetts
Capital Asset Statistics by Function/Program

Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Number of Stations.....	1	1	1	1	1	1	1	1	1	1
Police personnel and officers.....	42	42	42	42	42	42	42	42	42	42
Fire										
Number of Stations.....	2	2	2	2	2	2	2	2	2	2
Fire personnel and officers.....	42	42	42	42	42	42	42	42	42	42
Education										
Number of elementary schools.....	5	5	5	5	6	6	6	6	6	6
Number of middle schools.....	1	1	2	2	1	1	1	1	1	1
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Number of teachers.....	243	243	265	260	260	249	258	239	294	243
Number of administrators.....	9	9	9	18	17	17	19	22	26	22
Number of students.....	2,875	2,970	2,982	3,079	3,150	3,242	3,212	3,262	3,250	3,262
Water										
Water mains (miles).....	75	75	75	87	87	87	28	88	88	88
Fire hydrants.....	825	828	828	851	852	855	860	860	860	860
Sewer										
Sanitary sewers (miles).....	96	96	96	88	88	88	89	89	89	88.5
Storm sewers (miles).....	37	37	37	51	51	51	52	52	52	51.9
Recreation										
Parks and playgrounds.....	13	13	13	13	13	13	13	13	13	13
Park and playground (acreage).....	74	74	74	74	74	74	74	74	74	74
Conservation land (acreage).....	127	127	127	127	127	133	134	134	134	134
Railroad right of way (acreage).....	19	19	19	19	19	19	19	19	19	19
Public beaches.....	6	6	6	6	6	6	6	6	6	6
Ball fields.....	15	15	15	15	15	15	15	15	15	16
Tennis courts.....	12	12	12	12	10	12	12	12	12	13
Harbor										
Harbors.....	2	2	2	2	2	2	2	2	2	2
Moorings.....	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Private yacht clubs.....	5	5	5	6	6	6	6	6	6	6
Municipal boatyards.....	2	2	2	2	2	2	2	2	2	2
Boat ramps.....	2	2	2	2	2	2	2	2	2	2
Public landings.....	6	6	6	6	6	6	6	6	6	6
Emergency rescue watercraft.....	4	3	3	2	2	2	2	2	2	2

Source: Various Town Departments



Photo by Mike Porter

Under the spinning Golden Cod weathervane resides the Old North Church located on Washington Street which was built in 1824.



Photo by Mike Porter

The Old Town House and local shops are pictured alongside Washington Street located in the historic section of Marblehead.