

OFFICIAL STATEMENT DATED DECEMBER 12, 2012

Rating:
Standard & Poor's Rating Group: AAA

New Issue

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.

TOWN OF ANDOVER, MASSACHUSETTS

**\$22,055,000 General Obligation Municipal Purpose Loan of 2012, Series A
and
\$4,595,000 General Obligation Refunding Bonds, Series B**

DATED
Date of Delivery

DUE
(as shown on the inside cover page hereof)

The Bonds are issuable only in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in denominations of \$5,000 or any integral multiple thereof. (See "Book-Entry-Transfer System" herein.)

Principal of the Series A Bonds will be paid on January 15 of the years in which the Series A Bonds mature. Interest on the Series A Bonds will be payable semiannually on January 15 and July 15, commencing July 15, 2013, until the principal of the Series A Bonds amount is paid.

Principal of the Series B Bonds will be paid on December 1 of the years in which the Series B Bonds mature. Interest on the Series B Bonds will be payable semiannually on June 1 and December 1, commencing June 1, 2013, until the principal amount of the Series B Bonds is paid.

Principal and interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Series A Bonds are subject to redemption prior to their stated maturity dates. The Series B Bonds are not subject to redemption prior to their stated maturity dates.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Andover, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all the property within the territorial limits of the Town without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payment that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limitations imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payment that the Town has not voted to exempt from that limit.

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein and in the Notice of Sale. First Southwest Company, Boston, Massachusetts has acted as Financial Advisor to the Town with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about December 19, 2012, against payment to the Town in federal reserve funds.

TOWN OF ANDOVER, MASSACHUSETTS

\$22,055,000

GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2012, SERIES A

MATURITIES, AMOUNTS, RATES, YIELDS, CUSIPS

Due January 15	Principal Amount	Interest Rate	Yield	CUSIP # 034285	Due January 15	Principal Amount	Interest Rate	Yield	CUSIP # 034285
2014	\$ 1,395,000	3.00 %	0.36 %	3R5	2024	\$ 1,005,000	4.00 %	1.90 %	4B9
2015	1,395,000	4.00	0.45	3S3	2025	1,005,000	4.00	2.00	4C7
2016	1,385,000	3.25	0.56	3T1	2026	995,000	4.00	2.10	4D5
2017	1,385,000	2.75	0.70	3U8	2027	995,000	4.00	2.15	4E3
2018	1,280,000	4.00	0.90	3V6	2028	950,000	3.00	2.50	4F0
2019	1,265,000	1.25	1.10	3W4	2029	845,000	3.00	2.55	4G8
2020	1,260,000	3.00	1.24	3X2	2030	845,000	2.625	2.70	4H6
2021	1,260,000	4.00	1.43	3Y0	2031	845,000	2.625	2.75	4J2
2022	1,230,000	4.00	1.65	3Z7	2032	845,000	2.75	2.80	4K9
2023	1,025,000	4.00	1.85	4A1	2033	845,000	2.75	2.85	4L7

BAIRD

\$4,595,000

GENERAL OBLIGATION REFUNDING BONDS, SERIES B

MATURITIES, AMOUNTS, RATES, YIELDS, CUSIPS

Due December 1	Principal Amount	Interest Rate	Yield	CUSIP # 034285
2015	290,000	3.00 %	0.50 %	4N3
2016	535,000	3.00	0.64	4P8
2017	530,000	4.00	0.77	4Q6
2018	530,000	4.00	0.91	4R4
2019	495,000	4.00	1.09	4S2
2020	430,000	4.00	1.34	4T0
2021	425,000	4.00	1.54	4U7
2022	415,000	4.00	1.73	4V5
2023	410,000	4.00	1.85	4W3
2024	350,000	4.00	2.00	4X1
2025	185,000	4.00	2.06	4Y9

JANNEY MONTGOMERY SCOTT LLC

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
SUMMARY STATEMENT	3	Taxation to Meet Deficits.....	28
NOTICE OF SALE	4	Tax Limitations	28
OFFICIAL STATEMENT:		Tax Levies and Tax Levy Limits	30
THE BONDS:		Sale of Tax Receivables	30
Description of the Bonds	8	Pledged Taxes	30
Redemption Provisions.....	8	Community Preservation Act.....	30
Notice of Redemption Series A.....	9	TOWN FINANCES:	
Redemption Provisions Series B	9	Budget and Appropriation Process.....	32
Record Date Series A.....	9	Operating Budget Trends.....	32
Record Date Series B.....	9	Revenues	33
Book-Entry Transfer System.....	9	State Distributions	34
Authorization of the Bonds and		State School Building Assistance Program	34
Use of Proceeds Series A.....	11	Investment of Town Funds	35
Authorization of the Bonds and		Audits	36
Use of Proceeds Series B.....	12	Financial Statements.....	36
Plan of Refunding	12	Governmental Funds Balance Sheet	
Verification of Mathematical Computations	12	As of June 30, 2012 (Draft)	37
Sources and Uses of Bond Proceeds.....	12	Governmental Funds Balance Sheet	
Series A Principal Payments By Purpose	13	As of June 30, 2011	38
Tax Exemption.....	13	Governmental Funds Balance Sheet	
Security and Remedies	14	As of June 30, 2010	39
Opinion of Bond Counsel.....	16	Governmental Funds Balance Sheet	
Rating	16	As of June 30, 2009	40
Financial Advisory Services of First		Statement of Revenues, Expenditures and Changes	
Southwest Company	16	in Fund Balances as of June 30, 2007 - 2012 (draft)	41
Continuing Disclosure.....	16	Undesignated General Fund and Free Cash	43
TOWN OF ANDOVER, MASSACHUSETTS:		Stabilization Fund.....	43
General.....	17	Additional Funds Available for Appropriation	44
Local Government	17	Tax Increment Financing for Development District.....	44
Principal Town Officials	17	INDEBTEDNESS:	
Municipal Services.....	17	Authorization of General Obligation Bonds and Notes	45
Education	17	Debt Limits	45
Public School Enrollments	18	Types of Obligations	45
Industry and Commerce	18	Direct Debt Summary	46
Largest Employers.....	19	Debt Ratios	47
Economic Development Summary 2012	19	Principal Payment by Purpose	47
Labor Force, Employment and Unemployment Rates	22	Debt Service Requirements	48
Building Permits.....	22	Authorized Unissued Debt and Prospective Financing ...	49
Transportation and Utilities	22	Overlapping Debt	49
Population, Income and Wealth Levels	23	Contractual Obligation.....	50
Population Trends	23	RETIREMENT SYSTEM	50
PROPERTY TAXATION:		Other Post-Employment Benefits	52
Tax Levy Computation.....	24	EMPLOYEE RELATIONS	52
Assessed Valuations and Tax Levies	25	LITIGATION	52
Assessed Valuations and Tax Rates	25	APPENDIX A - Fiscal 2011 Audit	
Property Classification	25	APPENDIX B - Proposed Form of Legal Opinions	
Largest Taxpayers.....	26	APPENDIX C – Proposed Form of Continuing	
State Equalized Valuation and Estimated Full Value		Disclosure Certificate	
Tax Rate.....	26		
Abatements and Overlay	26		
Overlay Reserve and Abatements and Exemptions	27		
Tax Collections	27		
Tax Titles and Possessions.....	28		

The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

THIS PAGE INTENTIONALLY LEFT BLANK

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of Sale: Wednesday, December 12, 2012, 11:00 A.M. (E.T).

Location of Sale: First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114.

Issuer: Town of Andover, Massachusetts.

Issue: \$22,055,000 General Obligation Municipal Purpose Loan of 2012 Bonds, Series A and \$4,595,000 General Obligation Refunding Bonds, Series B, see "THE BONDS - Book-Entry Transfer System" herein.

Official Statement Dated: December 12, 2012.

Dated Date of the Bonds: Date of delivery.

Principal Due: Series A: Serially on January 15, 2014 through January 15, 2033, as detailed herein.
Series B: Serially on December 1, 2015 through December 1, 2025, as detailed herein.

Purpose and Authority: The Series A Bond proceeds are authorized for various municipal purposes by the Town under provisions of the Massachusetts General Laws as detailed herein. The Series B Bond proceeds will be used to refund certain maturities of outstanding bonds of the Town dated December 1, 2004 and December 1, 2005, as described herein, and to pay costs of issuance related thereto.

Redemption: The Series A Bonds are subject to redemption prior to their stated maturity dates as described herein. The Series B Bonds are not subject to redemption prior to their stated maturity dates.

Security: The Bonds will be valid general obligations of the Town of Andover, Massachusetts, and will be payable as to both principal and interest from taxes that may be levied upon all the property within the territorial limits of the Town without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

Credit Rating: Standard & Poor's Ratings Group has assigned a rating of AAA to the Bonds.

Bond Insurance: The Town has not contracted for the issuance of any policy of municipal bond insurance or any other credit enhancement facility.

Basis of Award: Lowest True Interest Cost (TIC), as of the dated date. **Series A Bonds must include a premium of at least \$95,000.**

Tax Exemption: Refer to "THE BONDS - Tax Exemption" herein and Appendix B, "Proposed Forms of Legal Opinion".

Continuing Disclosure: Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C, "Proposed Form of Continuing Disclosure Certificate".

Bank Qualification: The Bonds **WILL NOT BE** designated by the Town as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Paying/Escrow Agent: U.S. Bank National Association, Boston, Massachusetts

Verification Agent: Grant Thornton LLP, Minneapolis, Minnesota.

Legal Opinion: Edwards Wildman Palmer LLP, Boston, Massachusetts.

Financial Advisor: First Southwest Company, Boston, Massachusetts.

Delivery and Payment: It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or to its custodial agent, on or about December 19, 2012, against payment in Federal Funds.

Issuer Official: Questions concerning the Official Statement should be addressed to: Mr. David J. Reilly, Treasurer, Town of Andover, Massachusetts Telephone (978) 623-8250 or Peter Frazier, Senior Vice President, First Southwest Company, Boston, Massachusetts Telephone (617) 619-4409.

NOTICE OF SALE

TOWN OF ANDOVER, MASSACHUSETTS

The Town of Andover, Massachusetts, will receive sealed or electronic (as described herein) proposals until 11:00 A.M. (Eastern Time) on Wednesday, December 12, 2012, for the purchase of the following described Bonds of the Town:

\$22,055,000 General Obligation Municipal Purpose Loan of 2012 Bonds, Series A, payable on January 15 in the years and amounts as follows:

<u>Due January 15</u>	<u>Principal Amount</u>	<u>Due January 15</u>	<u>Principal Amount</u>	
2014	\$ 1,395,000	2024	\$ 1,005,000	**
2015	1,395,000	2025	1,005,000	**
2016	1,385,000	2026	995,000	**
2017	1,385,000	2027	995,000	**
2018	1,280,000	2028	950,000	**
2019	1,265,000	2029	845,000	**
2020	1,260,000	2030	845,000	**
2021	1,260,000	2031	845,000	**
2022	1,230,000	2032	845,000	**
2023	1,025,000	2033	845,000	**

**Callable maturities. May be combined into two Term Bonds as described herein.

\$5,075,000* General Obligation Refunding Bonds, payable on December 1 in the years and amounts as follows:

<u>Due December 1</u>	<u>Principal Amount*</u>
2013	\$ 55,000
2014	345,000
2015	595,000
2016	585,000
2017	580,000
2018	545,000
2019	455,000
2020	455,000
2021	440,000
2022	435,000
2023	390,000
2024	195,000

*Preliminary, subject to change.

The Bonds will be dated as of their delivery date. Principal of the Bonds will be payable on the date shown above of the years in which the Bonds mature. Interest on the Series A Bonds will be payable semiannually on January 15 and July 15, commencing July 15, 2013. Interest on the Series B Bonds will be payable semiannually on June 1 and December 1, commencing June 1, 2013.

The Bonds will be issued by means of a book-entry system with no physical distribution of the Bonds made to the public. One certificate for each maturity of each series of the Bonds will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, will be evidenced by a book-entry system with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Interest and principal on the Bonds will be payable to DTC or its nominee as Registered Owner of the Bonds. Transfer of principal and interest payments to DTC participants will be the responsibility of DTC. Transfer of principal and interest payments to Beneficial Owners will be the responsibility of such participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

The original Bonds to be immobilized at DTC will be prepared under the supervision of First Southwest Company and their legality will be approved by Edwards Wildman Palmer LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge.

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Redemption Provisions Series A

The Series A Bonds maturing on or prior to January 15, 2023 shall not be subject to redemption prior to their stated maturity dates. The Series A Bonds maturing on or after January 15, 2024 shall be subject to redemption prior to maturity, at the option of the Town, on or after January 15, 2023, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Series A Bonds to be redeemed, plus accrued interest to the date set for redemption.

For the Series A Bonds maturing on and after January 15, 2024, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one or two Term Bonds, and shall be subject to mandatory redemption or mature at par, as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond maturing in the nearest subsequent year. Bidders may specify no more than two Term Bonds.

Term Bonds, if any, shall be subject to mandatory redemption on January 15 of the year or years immediately prior to the stated maturity of such Term Bonds (the particular Bonds of such maturity to be redeemed to be selected by lot), as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

Redemption Provisions Series B

The Series B Bonds are not subject to redemption prior to their stated dates of maturity.

Bidding Parameters

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity, (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percent. **Additionally, Series A Bond bids must include a premium of at least \$95,000.**

As between proposals which comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of the delivery date of the Bonds, discounts semiannually all future payments on account of principal and interest to the price bid. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot among all such proposals.

On the Series B Bonds, the Town reserves the right to change the aggregate principal amount of the Series B Bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be necessary to (a) produce sufficient funds to effect the refunding for which the Bonds are being issued after taking into account any premium to be received by the Town and the actual investment yield at which the proceeds of the Bonds are to be invested and (b) to account for any changes in the bonds to be refunded with the proceeds of the Bonds based on the actual debt service savings to be realized by the Town. In such event, the final aggregate principal amount of the Bonds will be increased or decreased by not more than fifteen percent (15%) of the aggregate principal amount of the Bonds stated in this Notice of Sale. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE ANNUAL PRINCIPAL AMOUNTS WITHIN THIS LIMIT. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, if any, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it

change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder by 4 P.M. Eastern Standard Time on the day of the sale.

Bids for a series of Bonds must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to Mr. David J. Reilly, Town of Andover, Massachusetts c/o First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114. Proposals by telegram delivered as specified above will be accepted. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to First Southwest Company, telephone (617) 619-4400 at least one-half hour prior to the 11:00 A.m. sale and after receipt of the faxed bid form by First Southwest Company. First Southwest Company will act as agent for the bidder, but neither the Town nor First Southwest Company shall be responsible for any errors in connection with bids submitted in this manner.
- (b) Electronically via Parity in accordance with this Notice of Sale. To the extent any instructions or directions set forth in Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact the Financial Advisor to the Town or I-deal at 40 West 23rd Street, 5th Floor, New York, NY 10010 (212) 404-8102. An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

The award of each series of Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and Board of Selectmen of the Town.

The right is reserved to reject any or all proposals and to reject any proposal not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

It shall be a condition of the successful bidder's obligation to accept delivery of and pay for the Bonds that, contemporaneously with or before accepting such series of the Bonds and paying therefor, it shall be furnished, without cost, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, substantially in the form presented in Appendix B to the Preliminary Official Statement dated December 5, 2012 with respect to the Bonds, (b) a certificate in form satisfactory to said firm, dated as of the date of delivery of the Bonds and receipt of payment therefor, to the effect that there is no litigation pending, or to the knowledge of the signer or signers thereof, threatened affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, both the Preliminary Official Statement as of the date of sale and the Final Official Statement as of the date of delivery of the Bonds, do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate substantially in the form presented in Appendix C of the Preliminary Official Statement.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of December 12, 2012 (the "Sale Date"), the Purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

The Town has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefore, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of his contractual obligations arising from the acceptance of his proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Standard & Poor's Rating Group for the rating on the Bonds. Any such fee paid to Standard & Poor's Rating Group would be borne by the Town.

Additional information concerning the Town and the Bonds is contained in the Preliminary Official Statement dated December 5, 2012, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. The Preliminary Official Statement is deemed final by the Town as of its date for purposes of SEC Rule 15c2-12(b)(1) except for the omission of the reoffering price(s), interest rate(s), delivery date, any other terms of the Bonds depending on such matters, and the identity of the underwriter(s), but is subject to change without notice and to completion or amendment in a Final Official Statement.

Copies of the Preliminary Official Statement and a suggested form of proposal for the Bonds may be obtained from First Southwest Company, 54 Canal Street, Suite 320, Boston, Massachusetts 02114 (telephone: (617) 619-4400). Within 7 business days following award of the Bonds and receipt of the necessary information from the successful bidder, 15 copies of the Final Official Statement will be available to the successful bidder for use in reoffering the Bonds. Upon request, additional copies will be provided to the successful bidder to a maximum of one per \$100,000 of par amount purchased.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. The Town assumes no responsibility for any CUSIP Service Bureau or other charges that may be imposed for the assignment of such numbers.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986 as amended.

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

The Bonds, in definitive form, will be delivered to The Depository Trust Company on or about December 19, 2012 against payment to the Town in federal reserve funds.

TOWN OF ANDOVER, MASSACHUSETTS
/s/ Mr. David J. Reilly, Treasurer

December 5, 2012

OFFICIAL STATEMENT

TOWN OF ANDOVER, MASSACHUSETTS

\$22,055,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2012 BONDS, SERIES A and \$4,595,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES B

INTRODUCTION

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Andover, Massachusetts (the "Town") in connection with the sale of its \$22,055,000 General Obligation Municipal Purpose Loan of 2012 Bonds (the "Series A Bonds") and the \$4,595,000 General Obligation Refunding Bonds, Series B, (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

The Bonds are being offered for sale at public bidding on Wednesday, December 12, 2012, and a Notice of Sale dated December 5, 2012 has been furnished to prospective bidders. Reference is hereby made to the Notice of Sale for the terms and conditions of bidding.

The Bonds will be general obligations of the Town for which its full faith and credit are pledged. Their payment is not limited to a particular fund or revenue source. For details, see "THE BONDS - Security and Remedies," below.

THE BONDS

Description of the Bonds

The Series A Bonds will be dated as of their delivery date and will bear interest payable semiannually on July 15 and January 15 of each year until maturity, commencing July 15, 2013, each at the rate or rates of interest determined upon their sale in accordance with the Notice of Sale of the Town dated December 5, 2012. The Bonds shall mature on January 15 of the years and in the principal amounts as set forth on the inside cover page of this Official Statement.

The Series B Bonds will be dated as of their delivery date and will bear interest payable semiannually on June 1 and December 1 of each year until maturity, commencing June 1, 2013, each at the rate or rates of interest determined upon their sale in accordance with the Notice of Sale of the Town dated December 5, 2012. The Bonds shall mature on August 15 of the years and in the principal amounts as set forth on the inside cover page of this Official Statement.

The Bonds are issuable only in fully registered form, without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000, or any integral multiple thereof. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal of and interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the indirect Participants, as more fully described herein.

The Series A Bonds are subject to redemption prior to their stated dates of maturity.

Optional Redemption

Series A Bonds maturing on or prior to January 15, 2023 shall not be subject to redemption prior to their stated maturity dates. Series A Bonds maturing on or after January 15, 2024 shall be subject to redemption prior to maturity, at the option of the Town, on or after January 15, 2023, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

Mandatory Redemption

Series A Term Bonds, if any, shall be subject to mandatory redemption commencing on January 15 of the first year which has been combined to form such Series A Term Bonds and continuing on January 15 in each year thereafter until the stated maturity date of any such Series A Term Bonds. The amount redeemed or paid at maturity in any years shall be equal to the principal amount for that year set forth in the schedule contained in the Notice of Sale dated December 5, 2012 relating to the Series A Bonds. Principal amounts to be redeemed in any year by mandatory redemption shall be redeemed at par (without premium), plus accrued interest to the redemption date, and shall be selected by lot from among the Series A Bonds then subject to redemption. The Town Treasurer may credit against any mandatory redemption requirement Series A Term Bonds which have been purchased and cancelled by the Town or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Notice of Redemption

So long as DTC is the registered owner of the Series A Bonds, notice of any redemption of Series A Bonds prior to their maturities, specifying the Series A Bonds (or the portion thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants, Indirect Participants, or of a nominee of a Beneficial Owner (having received notice from DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

Redemption Provisions Series B

The Series B Bonds are not subject to redemption prior to their stated dates of maturity.

Record Date – Series A

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the bondholders at least ten (10) days before the special record date.

Record Date – Series B

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date, provided that with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the bondholders at least ten (10) days before the special record date.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal

Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of securities deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited with DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in securities deposited with DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with it, DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of

such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

The following sets forth the principal amounts, purposes, statutory authorizations and dates of Town approval for the current offering of Bonds:

Series A: \$22,055,000 General Obligation Municipal Purpose Loan of 2012 Bonds, payable January 15:

Purpose	This Issue	Total Authorization	Amount of BANs Outstanding	Statutory Reference	Date Authorized	Article Number
Bridge Repairs	\$ 200,000	\$ 600,000		Ch. 44, s.7(4)	4/30/2008	32
Town Building Construction and Renovations	200,000	955,000		Ch. 44, s.7(3) & 7(3A)	4/23/2007	27
Playground Replacements	200,000	200,000		Ch. 44, s.7(25)	5/1/2012	23
Town Building Remodeling	400,000	400,000		Ch. 44, s.7(3A)	5/1/2012	24
Balmoral Fence/Masonry	125,000	125,000		Ch. 44, s.7(3A)	5/1/2012	28
Storm Drainage Improvements	100,000	300,000		Ch. 44, s.7(1)	4/28/2011	33
High Plain Road/Fishbrook Roadway	1,100,000	1,100,000		Ch. 44, s.7(1) & 7(5)	5/1/2012	42
Fire Communications Upgrade	200,000	200,000		Ch. 44, s.7(14)	5/1/2012	31
School Building Renovations	1,000,000	1,000,000		Ch. 44, s.7(3A)	5/1/2012	25
West Middle School Repairs	530,000	530,000		Ch. 44, s.7(3A)	5/1/2012	38
Bancroft School	14,000,000	43,835,000 (1)	2,000,000	Ch. 70B	12/6/2010 & 1/25/2011	3
Shawsheen Pump Station	200,000	750,000		Ch. 44, s.7(1)	4/30/2007	64
Repair/Replace Sanitary Sewer	150,000	500,000		Ch. 44, s.7(1)	4/25/2006	33
Sewer Construction Mains	300,000	500,000		Ch. 44, s.7(1)	5/1/2008	51
Sewer Mains and Reconstruction	500,000	500,000		Ch. 44, s.7(1)	4/29/2010	32
Sewer Infrastructure Vehicle	250,000	250,000		Ch. 44, s.7(9)	5/1/2012	37
Water Main	500,000	500,000		Ch. 44, s.8(5)	4/29/2010	31
Water Treatment Plant Pump	100,000	440,000		Ch. 44, s.8(7C)	4/28/2011	44
Technology - Hardware & Software	2,000,000	2,500,000		Ch. 44, s.7(28) & 7(29)	5/1/2012	22
TOTAL	\$ 22,055,000		\$ 2,000,000 (2)			

(1) On January 25, 2011, the Town voted to exempt this authorization from the limits of Proposition 2 ½.

(2) This issue will retire a like amount of bond anticipation notes maturing December 20, 2012.

Series B: \$4,595,000 General Obligation Refunding Bonds, payable December 1:

Purpose	This Issue	Statutory (Reference Massachusetts General Laws, as amended)
Refunding Bonds	\$ 4,595,000	Ch. 44 s. 21A

Bond proceeds will be used to refund a \$2,650,000 portion of the \$6,000,000 General Obligation Bonds dated December 1, 2004 maturing in the years 2015 through 2024 (the "2004 Bonds") and to refund a \$2,200,000 portion of the \$5,300,000 General Obligation Bonds dated December 1, 2005 maturing in the years 2016 through 2025 (the "2005 Bonds" and together with the 2004 Bonds, the "Refunded Bonds"), and to pay costs of issuance relating thereto.

Plan of Refunding

Upon delivery of the Series B Bonds, the Town will enter into a Refunding Escrow Agreement (the "Refunding Escrow Agreement") with U.S. Bank National Association, as Escrow Agent, to provide for the refunding of the Refunded Bonds. Upon receipt of the portion of the proceeds of the Series B Bonds necessary to refund the Refunded Bonds, the Escrow Agent will deposit in the Refunding Escrow Fund established under the Refunding Escrow Agreement an amount which will be held in cash and an amount which will be invested in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient without reinvestment, together with the cash on deposit in the Refunding Escrow Fund, to pay when due, interest on, and upon redemption, the outstanding principal of and redemption premium on the Refunded Bonds. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, will be pledged for the benefit of the holders of the Refunded Bonds.

Verification of Mathematical Computations

The accuracy of the mathematical computations relating to (i) the adequacy of the maturing principal amounts of the Government Obligations together with the interest income thereon, other contributions and uninvested funds, if any, to provide for the payment of the Refunded Bonds and (ii) the yield on the Bonds and the Government Obligations for purposes of determining compliance with certain requirements of the Internal Revenue Code of 1986, as amended, will be verified by Grant Thornton LLP, independent certified public accountants. Such verification will be based upon information and assumptions supplied by First Southwest Company on behalf of the Town. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by First Southwest Company and has not evaluated or examined the assumptions or information used in the computations.

Sources and Uses of Bond Proceeds

Proceeds of the Series A and Series B Bonds will be applied as follows:

	Series A	Series B
Sources:		
Par Amount of the Bonds	\$ 22,055,000.00	\$ 4,595,000.00
Premium	2,160,622.55	804,668.85
Transfers from Prior Issue Debt Service Funds	-	6,161.25
Total Sources	<u>\$ 24,215,622.55</u>	<u>\$ 5,405,830.10</u>
Uses:		
Deposit to Refunding Escrow Fund	\$ -	\$ 5,309,589.45
Deposit to Project Construction Fund	22,055,000.00	
Underwriter's Discount	250,264.00	45,950.00
Original Issue Premium	1,817,526.05	
Costs of Issuance	92,832.50	50,290.65
Total Uses	<u>\$ 24,215,622.55</u>	<u>\$ 5,405,830.10</u>

Series A - Principal Amortization Schedule

Fiscal Year	General	School	Sewer	Water	Technology	Total
2014	\$ 180,000	\$ 800,000	\$ 95,000	\$ 40,000	\$ 280,000	\$ 1,395,000
2015	180,000	800,000	95,000	40,000	280,000	1,395,000
2016	180,000	800,000	90,000	35,000	280,000	1,385,000
2017	180,000	800,000	90,000	35,000	280,000	1,385,000
2018	175,000	800,000	90,000	35,000	180,000	1,280,000
2019	170,000	795,000	90,000	35,000	175,000	1,265,000
2020	170,000	790,000	90,000	35,000	175,000	1,260,000
2021	170,000	790,000	90,000	35,000	175,000	1,260,000
2022	170,000	790,000	60,000	35,000	175,000	1,230,000
2023	150,000	790,000	60,000	25,000		1,025,000
2024	135,000	790,000	55,000	25,000		1,005,000
2025	135,000	790,000	55,000	25,000		1,005,000
2026	125,000	790,000	55,000	25,000		995,000
2027	125,000	790,000	55,000	25,000		995,000
2028	80,000	790,000	55,000	25,000		950,000
2029	40,000	725,000	55,000	25,000		845,000
2030	40,000	725,000	55,000	25,000		845,000
2031	40,000	725,000	55,000	25,000		845,000
2032	40,000	725,000	55,000	25,000		845,000
2033	40,000	725,000	55,000	25,000		845,000
Totals	<u>\$ 2,525,000</u>	<u>\$ 15,530,000</u>	<u>\$ 1,400,000</u>	<u>\$ 600,000</u>	<u>\$ 2,000,000</u>	<u>\$ 22,055,000</u>

Tax Exemption

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the Town (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt

from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "Types of Obligations- Serial Bonds and Notes" under "INDEBTEDNESS") and setoffs of state distributions as described below (see "Use of State Distributions to Pay Debt Service" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for and all amounts necessary to satisfy final judgments." Specific provision is also made for including in the next tax levy payment of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See "Tax Limitations" under "PROPERTY TAXATION" below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See "Debt Limits" below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See "Tax Limitations" under "PROPERTY TAXATION" below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on "qualified bonds" under (See "Types of Obligation - *Serial Bonds and Notes*" below) and any other sums due and payable by the city or town to The Commonwealth of Massachusetts (the "Commonwealth") or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority ("MBTA") or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority ("MWRA") if the city or town is within the territory served by the MWRA, for any debt service due on obligations issued to the Massachusetts School Building Authority ("MSBA"), or for charges necessary to meet obligations under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

Opinion of Bond Counsel

The purchaser will be furnished the legal opinion of the firm of Edwards Wildman Palmer LLP, of Boston, Massachusetts. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. The opinion will be substantially in the form presented in Appendix B.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Rating

Standard & Poor's Ratings Group has assigned a rating of AAA to the Bonds. It reflects only the rating agency's views and is subject to revision or withdrawal, which could affect the market price of the Bonds.

Financial Advisory Services of First Southwest Company

First Southwest Company, Boston, Massachusetts, serves as financial advisor to the Town of Andover, Massachusetts.

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. Other than the Town, there are no obligated persons with respect to the Bonds within the meaning of the Rule. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

The Town has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.

TOWN OF ANDOVER, MASSACHUSETTS

General

The Town of Andover is located in Essex County approximately 22 miles north of Boston on the Merrimack River. Andover has a population of approximately 33,201 (2010 federal census) and occupies a land area of 32 square miles. The Town is governed by an open town meeting and administered by a Town Manager and a five-member Board of Selectmen.

The following table sets forth the principal executive officials of the Town.

Principal Town Officials

<u>Town Title</u>	<u>Name</u>	<u>Selection</u>	<u>Term Expires</u>
Selectman, Chair	Paul J. Salafia	Elected	2014
Selectman, Vice Chair	Alexander J. Vispoli	Elected	2013
Selectman, Secretary	Daniel H. Kowalski	Elected	2016
Selectman	Brian P. Major	Elected	2015
Selectman	Mary K. Lyman	Elected	2014
Town Manager	Reginald S. Stapczynski	Appointed	2015
Director of Finance	Donna Walsh	Appointed	Indefinite
Treasurer/Collector	David J. Reilly	Appointed	Indefinite
Town Accountant	Rodney P. Smith	Appointed	2014
Town Clerk	Lawrence J. Murphy	Appointed	Indefinite

Municipal Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of solid waste, water and sewer services, schools for grades kindergarten through 12, street maintenance, parks and recreational facilities, a library and a land conservation program. The Andover Housing Authority provides housing for the elderly and low-income families.

The Greater Lawrence Regional Vocational Technical High School District provides vocational and technical education for students in grades 9 through 12.

The Town operates its own water supply, purification and distribution system providing water services to essentially all residential, industrial and commercial users in the Town. The Town provides the Town of North Reading with water on an emergency basis.

Wastewater treatment services are provided for many of the Town's residential users and essentially all of the Town's industrial and commercial users via connections to the Greater Lawrence Sanitary District. The Town's Public Works Department is responsible for the operation and maintenance of the Town's wastewater pumping stations and the entire system of sanitary sewers.

Education

The Town's public school facilities include five elementary schools and one early childhood center, three middle schools and one senior high school. The following table, provided by the Andover School Department, sets forth the trend in public school enrollments for the last six years.

PUBLIC SCHOOL ENROLLMENTS - OCTOBER 1

	Actual					
	2007	2008	2009	2010	2011	2012
Elementary (PK-5)	2,885	2,893	2,885	2,877	2,887	2,903
Middle School (6-8)	1,473	1,513	1,483	1,531	1,526	1,535
Senior High	1,750	1,721	1,799	1,802	1,803	1,816
Total	6,108	6,127	6,167	6,210	6,216	6,254

In the mid 1990's, the Town borrowed approximately \$42,000,000 for additions to and reconstruction of Andover High School, the South Elementary School and the Sanborn Elementary School. The debt service was excluded from the limits of Proposition 2 ½ and the Town is receiving a reimbursement from the State School Building Assistance Program for 60% of construction and interest expenses. There is approximately \$7,347,888 remaining in State grant payments to be received. These projects upgraded facilities and increased available capacity. With the completion of the new \$30,000,000 elementary and middle school facilities, the school system now has an additional 1,014 seats, which, when added to the previous capacity of 5,488, gives the school system a total of 6,502 seats, which the Town believes will provide sufficient capacity for the foreseeable future. These authorizations were also excluded from the limits of Proposition 2 ½.

The Town is also a member of the Greater Lawrence Regional Vocational Technical High School District. Other members include Lawrence, North Andover and Methuen. Andover enrollment averages less than 2% of District total enrollment. The District has recently completed a substantial reconstruction of its facilities. (See Overlapping Debt).

Industry and Commerce

The Town of Andover is primarily residential in character but has a substantial amount of industry. Manufacturing is the leading economic pursuit. The table below sets forth the major categories of income and employment in the Town during the following calendar years.

Industry	Calendar Year Average				
	2007	2008	2009	2010	2011
Construction	567	532	440	448	447
Manufacturing	8,836	9,394	9,629	9,936	10,605
Trade, Transportation and Utilities	2,066	2,086	1,997	1,979	2,029
Information	1,661	1,664	1,416	1,255	1,171
Financial Activities	1,531	1,481	1,361	1,967	1,920
Professional and Business Services	8,741	8,439	8,065	8,035	8,173
Education and Health Services	4,701	4,910	4,932	4,355	4,248
Leisure and Hospitality	1,835	1,767	1,682	1,721	1,784
Other Services	650	682	660	670	647
Total Employment	30,588	30,955	30,182	30,366	31,024
Number of Establishments	1,135	1,123	1,122	1,667	1,195
Average Weekly Wages	\$ 1,350	\$ 1,369	\$ 1,440	\$ 1,498	\$ 1,562
Total Wages	\$ 2,227,119,921	\$ 2,332,833,133	\$ 2,383,395,873	\$ 2,463,133,945	\$ 2,625,047,003

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Largest Employers

The following table lists the largest employers in Andover, exclusive of the Town itself.

Name	Product/Function	Approximate Number of Employees (1)
Raytheon Co. & Endrock Associates	Missile Systems	4,750
Internal Revenue Service	Regional Service Center	3,500
Phillips Healthcare	Medical Electronics	2,300 (2)
Pfizer	Biopharmaceuticals (RDNA)	1,200
Putman Investments	Mutual Funds	900
Vicor	Computer Equipment	850
Verizon	Communications	600
Phillips Academy	Private School	555
Enterasys	Date Processing Services	500
Hewlett Packard Services	Computer Equipment	500
Smith & Nephew	Medical Devices	500
Zwicker & Associates	Law Firm	350
Draeger Medical	Medical and safety technology	300
CGI	Technology Research & Mfg	273
Northrop Grumman	Defense Systems	265
Esai Research Institute	Research	258
Procter & Gamble (formerly Gillette)	Beauty Care Products	250
Andover Country Club	Banquet Room/Golf Courses	240
Greater Lawrence Technical	School	230
Straumann	Dentistry	255
The Andover Companies	Insurance	217
Injured Workers Pharmacy	Pharmacy	200
Polycom	Technology	150
WSI	Data Processing Services	120
Massachusetts School of Law	Education	110
DeMoulas	Grocery Store	100
Caradigm (Formerly Microsoft)	Technology	100
MKS	Mfg. Instruments	90
Alabanza Corporation	Research and Investing Information	85

Source: Town of Andover, Massachusetts.

(1) Includes seasonal employees.

(2) Includes part-time and temporary employees.

Economic Development Summary 2012

The development climate in Andover in 2012 continues to reflect positive trends and activities. The River Road industrial district along I-93 continues to provide jobs for approximately 9,000 people in a built environment of more than 6,000,000 square feet of office, research and development, and hi-tech manufacturing space. The district has capacity for more than an additional 1,000,000 square feet of expansion. The River Road area is home to numerous medical device and pharmaceutical companies such as Philips Medical with more than 2,300 employees, Smith + Nephew Endoscopy, Eisai Research Institute, Transmedics, Inc., the Straumann Company, Draeger Medical, and Formatech Inc.

There are several electronics, communications, and financial companies in the district as well, including Navisite, Navistar, Motorola-Quantum Bridge, Polycom, CGI, NWS (a high-tech weather service company), Wachovia Securities and Putnam Investments with nearly 900 employees in total. Also located in the River Road industrial district are firms and institutions such as Microsoft, Verizon, the Massachusetts School of Law, the Vicor Company, Boston Technology, MKS Instruments and the Marriott Corporation.

The River Road corridor is presently home to several hotels, Courtyard Marriott, Residence Inn, Springhill Suites, Staybridge Suites, Wyndham, Homewood Suites and LaQuinta hotel.

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

The Dascomb Road/Lowell Street industrial area, also adjacent to I-93 is home to the large Raytheon Company facility with more than 1,000,000 square feet of space and is in an expanding business environment. Along with Raytheon, are Hewlett-Packard (447,500 square feet), the Internal Revenue Northeast Service Center, California Products (174,665 square feet), and the Brockway Smith Company (42,000 square feet). Other businesses such as Cambridge Isotopes, Mayo Clinic and The Professional Center for Child Development also reside within the Dascomb Road/Lowell Street industrial area. The corporate headquarters of the Vicor Company is located on Frontage Road, with manufacturing operations being conducted at its Federal Street facility. In 2012, AGFA recently expanded into Andover, occupying 41,000 square feet at 160 Dascomb Road. More recently, the Planning Board approved the construction of a 10,000 square foot medical building at 321 Lowell Street.

In the Lowell Junction industrial district along I-93, Pfizer continues to expand its physical plant, and presently operates out of more nearly 900,000 square feet of built space on its at its biopharmaceutical research and manufacturing campus. Pfizer's master plan calls for building an additional 1,000,000 square feet. Back in 2010, Pfizer announced as part of their plant network strategy, Andover will serve as the long term role as mammalian clinical/launch facility and global production site for polysaccharides. Alaska Diesel occupies a 43,000 square foot facility on Connector Road. The Proctor and Gamble Company (formerly the Gillette Company) currently occupies 592,000 square feet of space in the district, with Standard Duplicating, Granite City Electric, Bodycote, Reid Graphics also occupying space in the Lowell Junction area.

More recently in the Lowell Junction industrial district, the Planning Board approved a +/- MW solar photovoltaic facility 1350 & 1350R South Street, Andover. The project will include the erection and installation of a fixed ground mount PV solar facility, which would encompass 17.4 acres and approximately 18,000 solar panels. According to the proponent the 3 feet by 5 feet panels are expected to produce four megawatts (enough energy harvested from the sun to power about 800 homes indefinitely).

In addition to the ongoing activity in the Lowell Junction Area, there continues to be significant momentum in realizing a new Lowell Junction Interchange. The anticipated creation of a new interchange on I-93 near the Proctor & Gamble facility will make more than 400 developable acres of land in Andover accessible for industrial expansion with the potential of bringing online approximately 2+ million square feet new hi-tech office/industrial space. In total, the development area has a potential to yield approximately 4+ million square feet of new office/industrial/commercial space (2+ million square feet in Andover) with direct access off Route 93, with estimates that this in-fill development could support as many as 11,500 new jobs if fully developed.

In anticipation of the infrastructure improvements, the communities of Tewksbury, Wilmington and Andover have been collaborating on developing a Mixed Use Center Vision for the Tri-Town Area, via a Form Based Code (FBC). The FBC will guide the thoughtful development of approximately 1,200 acres of land around the I-93 Lowell Junction Interchange within the three towns. Form-based codes typically include recommendations on building height, massing, setbacks and set parameters for streets and streetscape. For Tri-Town, the FBC will set a design framework, goals and objectives for future development that correspond to the Unified Development Vision that was prepared in 2007.

The ultimate goal of the form-based code is to help facilitate more efficient land utilization, provide opportunities for increased tax revenues and increased economic development, while helping mitigate traffic congestion through abutting residential neighborhoods.

Brickstone Square, which is a large 1,000,000 square foot former mill complex in the Shawsheen area adjacent to I-495 continues to thrive. The Brickstone complex is home to more than 54 different firms, including health providers such as Genesis Health Care Corporation, Kindred Health Care, Medical Health Care Solutions Well point, financial firms such as Merrill Lynch, Northern Capital Advisors Corporation, Preferred Financial Services, and RBC Dain Rauscher; computer and electronics firms such as Northrop Grumman, Specialty Filaments, Broadcom, Pan Communications and Agere Systems. Other firms include Mitsubishi International, the Northeast Document

Conservation Center, Andover Controls, Basilea, Regus, Aras, Soft Shoe. Over the past year many new companies have relocated to Brickstone Square, including Standard Capital, Constitutional Capital, Helium, Caristone, ORA, Capsule Tech, Volcano, Genalytics and Acquia.

Existing commercial and retail activities in downtown Andover have swiftly increased in 2012. During the year the Town welcomed several new retail stores and restaurants. This past year, the downtown has welcomed Nest, Sense of Wonder, Verizon Store expansion at 77 Main Street, Chic Consignment expansion, with the Running Store presently in the permitting stage. The Town also welcomed a host of new food establishments, including Orange Leaf frozen yogurt, Subway, Fisichelli's Bakery, with Salvatore's Restaurant, Sweet Kiwi, Mad Maggies Ice Cream and the Pizza Connection presently under construction. Also opening for business in downtown this year was Century Bank, Home Yoga and Expicient software firm.

Formerly home to Market Basket at Shawsheen Plaza, major renovations/construction has been completed and is now home to Stop & Shop. Also, presently in the permitting/construction stage is Raagini's Indian bistro, Sports Clips and Planet Fitness, which will occupy 17,509 square feet of the former Marshalls space, which had been vacant for 18 months.

The Zoning Board of Appeals is currently reviewing a new 224 unit 40B residential rental apartment development Apartments at Rolling Green off Lowell Street.

Over the past year, residential activity in Andover has remained strong, with the following residential projects being permitted by the Planning Board:

Recently permitted:

- Merrimack College – 5 student residence buildings – permitted – under construction
- 34 Essex Street – expansion
- Bancroft School – construction of a 106,486 square foot school for grades K-5
- 429 South Main Street a new 4,549 square feet retail/restaurant/office building – under construction
- Faith Lutheran Church expansion – permitted
- 60-62 Essex Street Planned Development – permitted
- Arbor Lane 3-lot subdivision – permitted
- 39-47 High Plain Road 3-lot subdivision – permitted
- Weeping Willow 9-lots subdivision – permitted
- Celestial Circle 9-lot subdivision – permitted (under appeal)
- Pine Forest Park 11-lot subdivision – permitted (under appeal)
- 321-325 Lowell Street – new medical building – permitted
- 600-800 Federal Street – addition - permitted
- 340 Salem Street – 2-lots Definitive subdivision – permitted
- Seller Farm Estates 3-lots Definitive subdivision- permitted

Presently under construction:

- Hay Bale Parish 4 lots Definitive subdivision -under construction
- Manning Way 5-lots Definitive subdivision-under construction
- Black Horse Lane 8-lots Definitive subdivision-under construction
- Shandel Circle 8-lots Definitive subdivision-under construction
- Newport Circle 6-lots Definitive subdivision -under construction
- Gregory Circle 6-lots Definitive subdivision – under construction
- Merrimack Estates – 8-lots Definitive subdivision –under construction
- The Legends Phase I – 24 condominium units (under construction)
- The Legends Phase II – 27 condominium units (under construction)
- Swan Crossing I, II and III – 56 condominium units (under construction)
- Lincoln Woods – 21 condominium units (under construction)

Labor Force, Employment and Unemployment Rates

According to the Massachusetts Division of Employment and Training, in September 2012, the Town had a total labor force of 16,825 of which 15,992 were employed and 833 or 5.0% were unemployed, as compared with 6.4% for the Commonwealth (unadjusted) and 8.3% for the United States.

The following table sets forth the Town's average labor force and unemployment rates, as well as the unemployment rates for the Commonwealth and the United States, for the last five calendar years.

UNEMPLOYMENT RATES

Year	Town of Andover		Massachusetts Unemployment	United States Unemployment Rate
	Labor Force	Unemployment Rate		
2011	16,691	5.7 %	6.8 %	8.9 %
2010	16,838	7.1	8.5	9.6
2009	16,940	6.9	8.1	9.3
2008	17,018	4.0	5.3	5.8
2007	17,100	4.0	4.5	4.6

SOURCE: U.S. Bureau of Labor Statistics and Massachusetts Department of Revenue, Division of Local Services. Monthly data are unadjusted.

Building Permits

The table below sets forth the number of building permits issued and the estimated dollar value of new construction and alterations for the following calendar years. The estimated dollar values are builders' estimates, which are generally considered to be conservative. The table reflects permits filed and estimated valuations (in thousands) for both private construction and Town projects.

Calendar Year	New Construction				Other(1)		Totals	
	Residential		Non-Residential		No.	Value	No.	Value
	No.	Value	No.	Value				
2012 (2)	37	\$ 23,035	3	\$ 35,929	1,116	\$ 42,011	1,156	\$ 100,975
2011	37	14,474	-	-	1,316	52,593	1,353	67,067
2010	23	11,524	2	2,877	1,232	52,724	1,257	67,125
2009	17	7,688	1	13	1,151	48,221	1,169	55,922
2008	20	10,117	2	2,219	1,262	90,587	1,284	102,923

(1) Additions and alterations to all types of buildings (including residential), as well as permits for pools, demolitions, signs, and others.

(2) Issued through October 31, 2012.

Transportation and Utilities

The principal highways serving the Town include Interstate Route 495, which connects to Interstate 95 and Interstate Route 93. Transportation is available to Andover residents aged sixty and older or handicapped via the Merrimac Valley Regional Transit Authority (MVRTA) to the neighboring communities of Lawrence, North Andover and Methuen. Established trucking firms provide competitive service locally and to long distance points. Commuter rail service to Boston is provided by the Massachusetts Bay Transit Authority (MBTA). Logan International Airport in Boston is about 25 miles south of Andover and Lawrence Municipal Airport in North Andover has two paved runways (5,000 and 3,100 feet long, respectively).

Gas and electric services are provided by established private utilities.

Population, Income and Wealth Levels

The following table shows the median age, median family income and per capita income according to the Federal Census.

	<u>Andover</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2010	42.1	39.1	37.2
2000	39.5	36.5	35.3
1990	36.4	33.6	32.9
Median Family Income:			
2010	\$ 139,043	\$ 81,165	\$ 51,144
2000	104,820	61,664	50,046
1990	70,757	44,367	35,225
Per Capita Income:			
2010	\$ 51,194	\$ 33,966	\$ 27,334
2000	41,133	25,952	21,587
1990	26,327	17,224	14,420

SOURCE: U.S. Bureau of the Census.

POPULATION TRENDS

<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>
33,201	31,247	29,151	26,370

SOURCE: U.S. Bureau of the Census.

PROPERTY TAXATION

Tax Levy Computation

The principal revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Tax Limitations" below. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits" below).

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Total Appropriations(1)	\$ 130,190,002	\$ 134,309,458	\$ 132,409,866	\$ 136,128,816	\$ 140,905,913
Additions:					
State and County Assessments	2,874,461	2,873,157	3,079,417	2,926,555	2,426,090
Overlay Reserve	832,176	1,127,947	822,806	772,521	980,114
Other Additions	69,450	363,973	307,317	65,280	97,712
Total Additions	<u>3,776,087</u>	<u>4,365,077</u>	<u>4,209,539</u>	<u>3,764,356</u>	<u>3,503,916</u>
Gross Amount to be Raised	<u>133,966,089</u>	<u>138,674,535</u>	<u>136,619,405</u>	<u>139,893,172</u>	<u>144,409,829</u>
Deductions:					
Local Estimated Receipts	24,240,421	25,021,466	23,577,454	23,254,528	23,406,748
State Aid:(2)					
Current Year	11,857,153	12,315,672	11,125,672	10,370,852	10,265,154
Available Funds:(3)					
Free Cash	3,078,796	2,780,643	334,000	1,123,500	992,000
Other	712,000	580,000	292,163	485,992	871,771
Total Deductions	<u>39,888,370</u>	<u>40,697,781</u>	<u>35,329,289</u>	<u>35,234,872</u>	<u>35,535,673</u>
Net Amount to be Raised (Tax Levy)	<u>\$ 94,077,719</u>	<u>\$ 97,976,754</u>	<u>\$ 101,290,116</u>	<u>\$ 104,658,300</u>	<u>\$ 108,874,156</u>

- (1) Includes annual appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting the tax rate.
- (2) Estimated by the State Department of Revenue and required by law to be used in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates, and the State may withhold payments pending receipt of State and County assessments.
- (3) Transfers from available funds, including "Free Cash" (see "Free Cash"), generally made as an offset to a particular appropriation item.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land (which is to be valued at not exceeding \$10 per acre), agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property.

Classification came in part in response to a general recognition that, under the prior system of valuation, there were substantial discrepancies in fact between fair cash values and assessed valuations within municipalities and relative discrepancies as between municipalities. The table below sets forth the trend in the Town's assessed valuations, tax rates, tax levies, and tax levies per capita for the following fiscal years.

Assessed Valuations and Tax Rates

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(1)
				Residential	All Other		
2012 (2)	\$ 6,575,020,299	\$ 223,484,947	\$ 6,798,505,246	\$ 14.15	\$ 23.54	\$ 108,874,156	\$ 3,279
2011	6,415,226,755	201,324,807	6,616,551,562	14.12	22.46	104,658,300	3,152
2010	6,665,118,627	172,538,617	6,837,657,244	13.19	21.33	101,290,116	3,051
2009 (2)	6,999,146,223	161,324,140	7,160,470,363	12.16	19.98	97,976,754	2,951
2008	7,043,451,344	136,301,731	7,179,753,075	11.69	19.13	94,077,719	2,834

(1) Based on 2010 U.S. Bureau of the Census figure.

(2) Revaluation years.

Property Classification

The table below shows the breakdown of the estimated real estate assessed valuation for the following fiscal years by class.

Property Type	2010		2011		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$ 5,462,980,161	79.9 %	\$ 5,259,023,861	79.5 %	\$ 5,440,621,421	80.0 %
Commercial	566,418,366	8.3	552,946,894	8.4	547,695,778	8.1
Industrial	624,853,500	9.1	592,561,900	9.0	578,692,200	8.5
Open Space	10,866,600	0.2	10,694,100	0.2	8,010,900	0.1
Personal	172,538,617	2.5	201,324,807	3.0	223,484,947	3.3
	<u>\$ 6,837,657,244</u>	<u>100.0 %</u>	<u>\$ 6,616,551,562</u>	<u>100.0 %</u>	<u>\$ 6,798,505,246</u>	<u>100.0 %</u>

Largest Taxpayers

The following is a list of the ten largest taxpayers in the Town based upon taxes assessed for fiscal 2012. All of the taxpayers listed below are current in their tax payments.

<u>Name</u>	<u>Property Type</u>	<u>Total Taxable Real and Personal</u>	<u>Total Tax Assessed</u>	<u>Percent of Total Levy</u>
Wyeth (Genetic)	Industrial	\$79,845,400	\$1,793,328	1.71 %
Eisai Research Institute	Commercial/Ind.	73,148,030	1,642,905	1.57
Transwestern Brickstone Square LLC	Commercial	73,062,530	1,640,984	1.57
Raytheon	Industrial/Residential	61,299,850	1,376,795	1.32
Philips Electro No Amer Corp. (Agilent)	Industrial	50,648,500	1,137,565	1.09
RREEF America REIT III Corp. ZI	Commercial/Ind.	47,015,300	1,055,964	1.01
Verizon New England	Com/Utility	44,862,900	1,007,621	0.96
One Hundred Minuteman LLC	Industrial	39,907,600	896,325	0.86
Proctor + Gamble (Gillette)	Industrial	36,761,300	825,659	0.79
CA Investment Trust	Residential/Commercial	43,531,160	775,576	0.74
Total		<u>\$550,082,570</u>	<u>\$12,152,720</u>	<u>11.61 %</u>

State Equalized Valuation and Estimated Full Value Tax Rate

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the Town of Andover.

<u>January 1,</u>	<u>State Equalized Valuation</u>	<u>% Change</u>
2012 (proposed)	\$ 7,292,906,600	(1.52) %
2010	7,405,664,700	(4.53)
2008	7,757,246,999	5.49
2006	7,353,584,000	12.68
2004	6,525,840,900	16.75
2002	5,589,664,700	30.95
2000	4,268,662,500	21.14

Abatements and Overlay

The Town is authorized by law to increase each tax levy by an amount approved as reasonable by the Commissioner of Revenue for an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the resultant "overlay deficit" is required to be added to the next tax levy. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

Overlay Reserve and Abatements and Exemptions

The table below sets forth the amount of the overlay reserve for the last five fiscal years, and actual abatements and exemptions granted through June 30, 2012, against the respective fiscal year's levy.

Fiscal Year	Net Tax Levy(1)	Overlay Reserve		Abatements Granted Through June 30, 2012
		Dollar Amount	As a % of Net Levy	
2012	\$ 107,894,042	\$ 980,114	0.70 %	\$ 365,593
2011	103,885,779	772,521	0.70	598,651
2010	100,467,310	822,806	0.82	725,791
2009	96,687,573	1,289,181	1.33	831,752
2008	93,245,543	986,422	1.06	66,306

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

The Town has instituted quarterly tax billings, with tax bills payable August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Under recent legislation, cities and towns are authorized to establish a municipal tax amnesty program through June 30, 2004 permitting the payment of delinquent property taxes without interest or with reduced interest during the period of the program. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. 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 sale or taking of the property as described below.

The table below compares the Town's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable(1)	
				Dollar Amount	% of Net Levy
2012	\$ 108,874,156	\$ 980,114	\$ 107,894,042	\$ 107,067,732	99.23 %
2011	104,658,300	772,521	103,885,779	102,625,682	98.79
2010	101,290,116	822,806	100,467,310	99,241,767	99.91
2009	97,976,754	1,127,947	96,848,807	96,086,383	97.00
2008	94,077,719	832,176	93,245,543	92,107,899	93.17

(1) Actual dollar collections net of refunds. Does not include abatements proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions as of the end of each of the following fiscal years.

<u>Fiscal Year</u>	<u>Total Tax Titles and Possessions</u>
2012	\$ 1,552,279
2011	1,334,698
2010	1,237,434
2009	924,463
2008	608,050

Taxation to Meet Deficits

As noted elsewhere (see "*Abatements and Overlay*" above) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2 ½, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a 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 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

Proposition 2 ½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town's apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The Town of Andover has been in full compliance with Proposition 2 1/2 since its inception. Under the law as now written, the current and future levies may increase by up to 2 1/2% of the maximum levy limit for the previous fiscal year, plus by any amounts voted for override and debt exclusion, or "new" valuations or "real" valuation increases of 50% or more.

On May 17, 1994, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$38,500,000 bonds authorized for the construction and reconstruction of the high school and two elementary schools and \$2,000,000 for the installation of a technology system.

On May 23, 2000, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$34,455,000 bonds authorized for the construction of a new middle school and a new elementary school and from \$12,900,000 bonds authorized for the construction and reconstruction of the Public Safety Complex.

On January 25, 2011, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$43,835,000 bonds authorized for the construction of the Bancroft Elementary School and \$525,000 for the feasibility study of such school.

The following table presents the Town's primary levy limits, its maximum levy limits, and its actual tax levies for the following fiscal years.

Tax Levies and Tax Levy Limits (1)

	Fiscal Year				
	2012	2011	2010	2009	2008
Primary Levy Limit (2)	\$ 169,962,631	\$ 165,413,789	\$ 170,941,431	\$ 179,011,759	\$ 179,493,827
Prior Fiscal Year Levy Limit	101,868,863	98,313,488	94,838,978	91,201,846	87,189,479
2.5% Levy Growth	2,546,722	2,457,837	2,370,974	2,280,046	2,179,737
New Growth (3)	1,712,432	1,097,538	1,103,536	1,357,086	1,832,630
Overrides	-	-	-	-	-
Growth Levy Limit	106,128,017	101,868,863	98,313,488	94,838,978	91,201,846
Debt Exclusions	2,947,458	2,860,362	3,037,491	3,173,848	2,909,928
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	109,075,475	104,729,225	101,350,979	98,012,826	94,111,774
Tax Levy	108,874,156	104,658,300	101,290,116	97,976,754	94,077,719
Unused Levy Capacity (4)	201,319	70,925	60,863	36,072	34,055
Unused Primary Levy Capacity (5)	\$ 63,834,614	\$ 63,544,926	\$ 72,627,943	\$ 84,172,781	\$ 88,291,981

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. The Town has not created any such districts.

Community Preservation Act

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy, dedicate revenue (other than state or federal funds), and to receive state matching funds for (i) the acquisition, creation, preservation, rehabilitation and restoration of land for recreational use, open space, and affordable housing and (ii) the acquisition, preservation, rehabilitation and restoration of historic resources. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% (but not less than 1% under certain circumstances) and may make an additional commitment of funds by dedicating revenue other than state or federal funds, provided that the total funds collected do not exceed 3% of the real property tax levy, less any exemptions adopted (such as an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for

\$100,000 of the value of each taxable parcel of residential real property or \$100,000 of the value of each taxable parcel of class three, commercial property, and class four, industrial property as defined in Chapter 59, Section 2A of the General Laws, and an exemption for commercial and industrial properties in cities and towns with classified tax rates). In the event that the municipality shall no longer dedicate all or part of the additional funds to community preservation, the surcharge on the real property tax levy of not less than 1% shall remain in effect, provided that any such change must be approved pursuant to the same process as acceptance of the CPA. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see "*Tax Limitations*" under "PROPERTY TAX" above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, including reducing the surcharge to 1% and committing additional municipal funds as outlined above, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge and dedication of revenue. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula and the total state distribution made to any city or town may not exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

In April 2007, Town Meeting voted to include a ballot question on the March 2008 town election warrant to see if the voters would accept the Act and approve a one percent surcharge. The vote did not pass.

TOWN FINANCES

Budget and Appropriation Process

Town Meeting: The annual appropriations of the Town are ordinarily made at the annual meeting which usually takes place in April. Appropriations may also be voted at special meetings. The Town has a finance committee, which submits reports and recommendations on proposed expenditures at Town Meetings. School committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Town Meeting.

Mandatory Items: Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the appropriations voted at town meeting.

Enterprises: The Town's water and sewer services are operated as enterprises, under Chapter 44 Section 53F1/2 of the General Laws. The budgets for the Water and Sewer Departments are voted on as separate items at each Annual Town Meeting. Any operating surpluses generated by the Departments are retained at the end of each fiscal year within the respective Departments. The Water and Sewer rates are set by the Board of Selectmen. The Town initiated the water and sewer enterprise funds in fiscal 1996.

Revenues: Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAXATION--Tax Levy Computation".)

Operating Budget Trends

The following table sets forth the operating budgets for fiscal years 2009 through 2013 as voted by the Annual Town Meetings. Said budgets exclude Mandatory Items (see above) and expenditures for "non-operating" or extraordinary items authorized under "special" warrant articles at special town meetings.

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
General Government	\$ 6,691,624	\$ 6,945,208	\$ 7,291,446	\$ 8,572,150	\$ 8,523,509
Facility Maintenance (1)	6,168,891	5,604,186	5,687,425	5,498,500	6,490,514
Public Safety	13,365,837	14,009,136	14,149,992	14,762,088	14,549,741
Public Works	12,190,753	11,396,485	11,520,398	11,718,194	11,827,538
Library Services	2,617,296	2,576,389	2,595,173	2,427,022	2,432,589
Education(2)	59,795,887	60,223,073	62,373,345	63,229,080	66,320,015
Debt Service	13,348,695	13,312,391	12,002,493	12,112,692	11,585,101
Retirement	4,510,979	4,635,498	4,712,555	5,085,067	5,496,244
Unclassified (3)	11,832,088	13,180,500	14,206,741	15,116,613	14,852,113
Compensation Fund (4)	968,000	-	-	280,000	500,000
Reserve Fund	200,000	181,000	200,000	200,000	200,000
Total Expenditures	\$ 131,690,050	\$ 132,063,866	\$ 134,739,568	\$ 139,001,406	\$ 142,777,364

(1) Includes \$1,246,000 in additional funds to the capital project fund.

(2) Includes Greater Lawrence Technical School assessment.

(3) Includes health insurance.

(4) Reserve for Town (non-school) union and non-union salary adjustments.

Revenues

Property Taxes: Property taxes are a major source of revenue for the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "PROPERTY TAXATION--Tax Limitations", above. There is litigation in the Commonwealth claiming that the system of financing public education, with its heavy reliance on the property tax, is unconstitutional because it is based on the wealth of the municipality in which the student lives.

State Aid: The Town's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. In fiscal years 2010 and 2011, the Town received \$10,984,162 and \$10,370,852, respectively. The Town received \$10,330,506 in fiscal 2012.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made for the non-renewal of registration and operating licenses by the registrar of motor vehicles. In fiscal 2009, motor vehicle excise tax receipts totaled \$4,519,905. In fiscal 2010, motor vehicle excise tax receipts totaled \$4,472,856. In fiscal 2011, motor vehicle excise tax receipts totaled \$4,531,283. In fiscal 2012, motor vehicle excise tax receipts totaled \$4,471,695.

Water Rates and Services: It is the policy of the Town that the water utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital cost, operating expense, treatment expense and debt service. To reinforce this policy the Town established an enterprise fund for the water system effective July 1, 1995. Water revenues were \$6,320,667 in fiscal 2011. Total water expenses including debt service, insurance and pensions for fiscal 2011 were \$6,088,738. Water revenues were \$6,447,014 in fiscal 2010. Total water expenses including debt service, insurance and pensions for fiscal 2010 were \$6,439,510. Water revenues were \$6,741,635 in fiscal 2011. Total water expenses including debt service, insurance and pensions for fiscal 2011 were \$6,150,601. The water rate was increased 10% effective December 1, 2009 from \$2.65 per 100 cubic feet to \$2.92 per 100 cubic feet. (See Appendix A for additional information.)

Sewer Rates and Services: It also is the policy that the sewer utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital costs, operating expenses, debt service and wastewater treatment expense. To reinforce this policy the Town established an enterprise fund for the sewer system effective July 1, 1996. Sewer revenues totaled \$5,131,239 in fiscal 2011, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,512,361. Sewer revenues totaled \$5,570,736 in fiscal 2010, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,713,385. Sewer revenues totaled \$4,980,611 in fiscal 2011, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,237,008. Sewer rates are currently \$3.21 per 100 cubic feet of water used as of July 1, 2011. (See Appendix A for additional information.)

Room Occupancy Tax: Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) (The rate was increased by 2% effective October 01, 2009 by Town Meeting action on August 31), of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. The Town has levied the full 6% as permitted under the law. The Town received distributions from this tax in fiscal 2011 in the amount of \$1,288,660. The Town received distributions from this tax in fiscal 2010 in the amount of \$962,298.

Other: Other major sources of revenue in fiscal 2010 included departmental fees, fines, charges and investment income of \$5,907,162. The Town also adopted the new meals tax of .75% on October 7, 2009 which became effective January 1, 2010. Other major sources of revenue in fiscal 2011 included departmental fees, fines, charges and investment income of \$6,219,882. Other major sources of revenue in fiscal 2012 included departmental fees, fines, charges and investment income of \$6,259,658.

State Distributions

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The Town did not utilize this provision.

State School Building Assistance Program

Under its school building assistance program, The Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The Authority began accepting new applications for new projects on July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Investment of Town Funds

All funds of the Town, except for trust funds and funds of the Andover Retirement System, are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available funds and bond and note proceeds, in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereof with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole Trustee, and the fund is managed under contract by Fidelity Management Company, of Boston under supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to Town and town retirement systems.

Breakdown of the above investments may be obtained from the Town Treasurer. Pension funds are under the jurisdiction of the Andover Contributory Retirement System. Investments from the retirement system are discussed in Appendix A.

Audits

The Town's accounts were most recently audited for the fiscal year ended June 30, 2011 by Powers & Sullivan, Certified Public Accountants, a copy of which is attached hereto as Appendix A. Previous audits have been performed by Powers and Sullivan for fiscal years since 1996, copies of which are available upon request at the office of the Town Accountant. A similar audit for fiscal 2012 is currently underway and is expected to be complete by January 2013.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages for the Town of Andover are the combined balance sheets for fiscal years 2012 (draft, subject to revision and change), 2011, 2010, and 2009, and the comparative statement of revenues, expenditures and changes in fund balances for the years ending June 30, 2007 through 2012 (draft, subject to revision and change). Said financials were extracted from the Town's audited financial statements with the exception of the fiscal 2012 information which were extracted from draft financials, therefore subject to revision and change.

TOWN OF ANDOVER, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET AS OF JUNE 30, 2012 (1)

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 12,650,662	\$ 918,986	\$ 12,214,462	\$ 25,784,110
Investments	4,745,458	-	2,687,999	7,433,457
Receivables, Net of Uncollectibles:				
Real Estate and Personal Property Taxes	1,864,330	-	-	1,864,330
Real Estate and Tax deferrals	190,263	-	-	190,263
Tax Liens	1,302,120	-	-	1,302,120
Motor Vehicle and Other Excise Taxes	577,336	-	-	577,336
Departmental and Other	408,757	-	100,759	509,516
Intergovernmental	6,896,730	316,062	3,034,738	10,247,530
Due from other funds	231,331	-	-	231,331
Tax Foreclosures	250,160	-	-	250,160
TOTAL ASSETS	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153
 LIABILITIES AND FUND BALANCES:				
LIABILITIES				
Warrants Payable	\$ 464,300	\$ 1,093,727	\$ 1,183,031	\$ 2,741,058
Accrued Payroll	3,493,604	-	17,305	3,510,909
Tax Refunds Payable	1,139,000	-	-	1,139,000
Liabilities due depositors	27,503	-	-	27,503
Abandoned Property	14,460	-	-	14,460
Deferred Revenues	10,994,666	316,062	2,011,614	13,322,342
Due to other funds	-	-	231,331	231,331
Notes Payable	-	2,000,000	-	2,000,000
TOTAL LIABILITIES	\$ 16,133,533	\$ 3,409,789	\$ 3,443,281	\$ 22,986,603
 FUND BALANCES:				
Nonspendable	-	-	1,274,750	1,274,750
Restricted	-	-	13,319,927	13,319,927
Committed	13,999	-	-	13,999
Assigned	2,197,122	-	-	2,197,122
Unassigned	10,772,493	(2,174,741)	-	8,597,752
Total Fund Balances	12,983,614	(2,174,741)	14,594,677	25,403,550
Total Liabilities and Fund Balances	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153

(1) Extracted from the draft financial statements of the Town, subject to revision and change.

TOWN OF ANDOVER, MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2011 (1)

	General	Town Grants/ Other Revolving	Highway Construction	Nonmajor Governmental Funds	Totals (Memorandum Only)
ASSETS:					
Cash and Short-Term Investments	\$ 8,200,051	\$ 2,288,164	\$ -	\$ 6,625,392	\$ 17,113,607
Investments	4,599,959	2,570,754	-	-	7,170,713
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	1,809,460	-	-	-	1,809,460
Real Estate and Tax deferrals	166,283	-	-	-	166,283
Tax Liens	1,334,698	-	-	-	1,334,698
Motor Vehicle and Other Excise Taxes	518,137	-	-	-	518,137
Departmental and Other	319,975	87,857	-	-	407,832
Intergovernmental	8,202,072	-	3,937,262	552,625	12,691,959
Tax Foreclosures	250,160	-	-	-	250,160
TOTAL ASSETS	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 541,845	\$ 46,220	\$ -	\$ 347,790	\$ 935,855
Accrued Payroll	3,035,142	-	-	72,671	3,107,813
Tax Refunds Payable	402,000	-	-	-	402,000
Abandoned Property	23,322	-	-	-	23,322
Other liabilities	26,859	-	-	-	26,859
Deferred Revenues	12,433,787	77,736	3,937,262	410,643	16,859,428
Notes Payable	-	-	-	1,613,000	1,613,000
TOTAL LIABILITIES	\$ 16,462,955	\$ 123,956	\$ 3,937,262	\$ 2,444,104	\$ 22,968,277
FUND BALANCES: (2)					
Nonspendable	-	-	-	1,244,874	1,244,874
Restricted	-	4,822,819	-	3,489,039	8,311,858
Committed	13,999	-	-	-	13,999
Assigned	817,053	-	-	-	817,053
Unassigned	8,106,788	-	-	-	8,106,788
Total Fund Balances	8,937,840	4,822,819	-	4,733,913	18,494,572
Total Liabilities and Fund Balances	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849

(1) Extracted from the audited financial statements of the Town.

(2) Due to recent changes to GASB reporting requirements of fund balances, stabilizations fund balances are included in Unassigned Fund Balance.

TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2010 (1)

	General	Town Grants/ Other Revolving	Stabilization	Nonmajor Governmental Funds	Totals (Memorandum Only)
ASSETS:					
Cash and Short-Term Investments	\$ 10,328,043	\$ 1,605,029	\$ -	\$ 7,337,204	\$ 19,270,276
Investments	-	3,027,945	4,759,024	-	7,786,969
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	1,660,028	-	-	-	1,660,028
Real Estate and Tax deferrals	134,562	-	-	-	134,562
Tax Liens	1,237,434	-	-	-	1,237,434
Motor Vehicle and Other Excise Taxes	384,491	-	-	-	384,491
Departmental and Other	498,344	68,256	-	-	566,600
Intergovernmental	9,442,145	3,634,120	-	582,770	13,659,035
Tax Foreclosures	244,660	-	-	-	244,660
TOTAL ASSETS	\$ 23,929,707	\$ 8,335,350	\$ 4,759,024	\$ 7,919,974	\$ 44,944,055
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 752,162	\$ 104,621	\$ -	\$ 139,337	\$ 996,120
Accrued Payroll	4,504,979	-	-	65,639	4,570,618
Tax Refunds Payable	762,000	-	-	-	762,000
Abandoned Property	46,384	-	-	-	46,384
Other liabilities	27,318	-	-	-	27,318
Deferred Revenues	13,378,666	3,674,155	-	-	17,052,821
Notes Payable	-	-	-	4,285,000	4,285,000
TOTAL LIABILITIES	\$ 19,471,509	\$ 3,778,776	\$ -	\$ 4,489,976	\$ 27,740,261
FUND BALANCES:					
Reserved for:					
Encumbrances and Continuing Appropriations	1,208,156	-	-	-	1,208,156
Perpetual permanent funds	-	-	-	1,274,207	1,274,207
Unreserved:					
Undesignated, Reported in:					
General Fund	3,250,042	-	-	-	3,250,042
Special Revenue Funds	-	4,556,574	4,759,024	1,431,496	10,747,094
Capital Projects Funds	-	-	-	226,609	226,609
Permanent Funds	-	-	-	497,686	497,686
Total Fund Balances	4,458,198	4,556,574	4,759,024	3,429,998	17,203,794
Total Liabilities and Fund Balances	\$ 23,929,707	\$ 8,335,350	\$ 4,759,024	\$ 7,919,974	\$ 44,944,055

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2009 (1)

	General	Town Grants/ Other Revolving	Stabilization	Nonmajor Governmental Funds	Totals (Memorandum Only)
ASSETS:					
Cash and Short-Term Investments	\$ 6,774,820	\$ 1,756,880	\$ 769,575	\$ 7,125,412	\$ 16,426,687
Investments	2,342,917	2,339,491	3,728,870	-	8,411,278
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	1,675,634	-	-	-	1,675,634
Real Estate and Tax deferrals	104,668	-	-	-	104,668
Tax Liens	924,463	-	-	-	924,463
Motor Vehicle and Other Excise Taxes	346,602	-	-	-	346,602
Departmental and Other	475,409	80,860	-	-	556,269
Intergovernmental	10,619,083	3,479,045	-	553,562	14,651,690
Tax Foreclosures	252,563	-	-	-	252,563
TOTAL ASSETS	\$ 23,516,159	\$ 7,656,276	\$ 4,498,445	\$ 7,678,974	\$ 43,349,854
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 798,224	\$ 93,579	\$ -	\$ 185,890	\$ 1,077,693
Accrued Payroll	4,119,162	34,784	-	115,335	4,269,281
Tax refunds payable	821,000	-	-	-	821,000
Abandoned property	46,384	-	-	-	46,384
Other liabilities	42,418	-	-	-	42,418
Deferred revenues	14,182,422	3,559,568	-	-	17,741,990
Notes payable	-	-	-	5,566,500	5,566,500
TOTAL LIABILITIES	\$ 20,009,610	\$ 3,687,931	\$ -	\$ 5,867,725	\$ 29,565,266
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations	491,022	-	-	-	491,022
Perpetual permanent funds	-	-	-	1,265,156	1,265,156
Unreserved:					
Undesignated, reported in:					
General fund	3,015,527	-	-	-	3,015,527
Special revenue funds	-	3,968,345	4,498,445	1,119,408	9,586,198
Capital projects funds	-	-	-	(996,668)	(996,668)
Permanent funds	-	-	-	423,353	423,353
Total Fund Balances	3,506,549	3,968,345	4,498,445	1,811,249	13,784,588
Total Liabilities and Fund Balances	\$ 23,516,159	\$ 7,656,276	\$ 4,498,445	\$ 7,678,974	\$ 43,349,854

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE AS OF JUNE 30, 2012 (1)**

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds	\$ 107,820,244	\$ -	\$ -	\$ 107,820,244
Tax Liens	264,004	-	-	264,004
Motor vehicle excise taxes	4,471,696	-	-	4,471,696
Hotel/motel tax	1,353,137	-	-	1,353,137
Meals tax	517,177	-	-	517,177
Charges for services	-	-	146,950	146,950
Penalties and Interest on taxes	416,902	-	-	416,902
Fees	-	-	342,399	342,399
Licenses and Permits	1,536,310	-	-	1,536,310
Fines and forfeitures	-	-	1,100	1,100
Intergovernmental	23,611,256	1,556,234	8,482,473	33,649,963
Departmental and other	3,065,363	-	7,327,166	10,392,529
Contributions	-	-	906,799	906,799
Investment Income	207,604	-	98,497	306,101
TOTAL REVENUES	\$ 143,263,693	\$ 1,556,234	\$ 17,305,384	\$ 162,125,311
EXPENDITURES:				
Current:				
General Government	6,210,552	-	867,677	7,078,229
Plant and facilities	4,498,557	-	531,026	5,029,583
Public Safety	13,980,063	-	1,393,679	15,373,742
Education	62,937,482	-	8,264,293	71,201,775
Public Works	4,592,741	-	2,118,373	6,711,114
Community Services	1,636,528	-	1,237,911	2,874,439
Library	2,390,690	-	156,708	2,547,398
Pension Benefits	17,504,035	-	-	17,504,035
Property and liability insurance	827,013	-	-	827,013
Employee Benefits	15,134,416	-	-	15,134,416
State and County Charges	2,433,163	-	-	2,433,163
Capital outlay	-	4,816,575	2,913,308	7,729,883
Debt Service:	-	-	-	-
Principal	6,194,000	-	-	6,194,000
Interest	1,847,422	-	-	1,847,422
TOTAL EXPENDITURES	\$ 140,186,662	\$ 4,816,575	\$ 17,482,975	\$ 162,486,212
Excess (Deficit) of Revenues Over (Under) Expenditures	3,077,031	(3,260,341)	(177,591)	(360,901)
Other Financing Sources (Uses):				
Issuance of bonds and notes	-	1,342,000	4,024,000	5,366,000
Issuance of refunding bonds	4,564,700	-	-	4,564,700
Premium from issuance of bonds	239,602	-	-	239,602
Premium from issuance of refunding bonds	446,698	-	-	446,698
Payment to refunded bonds escrow agent	(4,986,695)	-	-	(4,986,695)
Transfers in	1,950,838	-	1,291,400	3,242,238
Transfers out	(1,246,400)	-	(356,264)	(1,602,664)
TOTAL OTHER FINANCING SOURCES (USES)	968,743	1,342,000	4,959,136	7,269,879
Net Change in Fund Balances	4,045,774	(1,918,341)	4,781,545	6,908,978
FUND BALANCES, BEGINNING OF YEAR	8,937,840	(256,400)	9,813,132	18,494,572
FUND BALANCES, AT END OF YEAR	\$ 12,983,614	\$ (2,174,741)	\$ 14,594,677	\$ 25,403,550

(1) Extracted from the draft financial statements of the Town, subject to revision and change.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE--GENERAL FUND(1)**

	June 30					
	2006	2007	2008	2009	2010	2011
REVENUES:						
Real Estate Taxes	\$ 85,233,515	\$ 89,296,522	\$ 93,215,670	\$ 96,792,126	\$ 100,472,493	\$ 103,357,190
Motor Vehicle Excise	5,000,633	4,563,040	4,806,104	4,519,908	4,472,857	4,589,014
Tax Liens and Foreclosures	86,449	35,720	199,266	860,090	962,298	250,075
Departmental	2,405,981	2,756,439	2,646,752	2,756,344	2,936,968	2,917,888
Intergovernmental	21,982,860	20,152,232	21,541,998	22,412,380	22,369,078	22,167,301
Earnings on Investments	870,581	1,474,892	1,109,224	511,714	205,191	230,188
Licenses and Permits	1,781,912	1,862,982	1,960,955	1,200,461	1,523,489	1,506,207
Penalties and Interest on taxes	279,901	314,296	410,491	303,184	286,866	409,888
Other Revenues	713,732	976,350	913,853		136,239	1,767,064
TOTAL REVENUES	\$ 118,355,564	\$ 121,432,473	\$ 126,804,313	\$ 129,356,207	\$ 133,365,479	\$ 137,194,815
EXPENDITURES:						
General Government	3,197,844	3,479,423	3,093,669	3,329,231	4,830,344	4,939,219
Public Safety	12,084,032	12,345,882	14,839,560	14,258,928	13,749,772	14,258,639
Public Works	4,436,028	5,275,679	6,019,041	6,016,573	5,052,056	5,714,338
Municipal Maintenance	4,160,906	4,381,340	4,362,540	4,379,318	4,243,392	4,501,505
Community Development	1,401,969	1,495,167	1,504,063	1,596,634	-	-
Community Service	1,626,904	1,647,905	1,662,462	1,716,451	1,624,624	1,656,498
Schools	51,774,063	55,399,739	57,612,168	59,367,142	60,442,671	62,350,888
Pension Benefits	11,772,996	12,832,746	13,818,706	14,999,567	15,577,594	16,231,461
Debt Service	11,845,185	8,753,885	8,507,702	8,321,453	7,901,249	7,508,537
Library	2,418,438	2,574,550	2,539,542	2,608,483	2,494,766	2,529,870
State and County Charges	1,982,311	2,514,120	2,852,501	2,871,728	3,072,718	2,860,658
Employee Benefits	9,597,000	9,956,000	11,299,000	12,023,030	13,438,023	14,919,349
Other Expenditures	744,326	805,315	657,483	826,980	485,701	734,996
TOTAL EXPENDITURES	\$ 117,042,002	\$ 121,461,751	\$ 128,768,437	\$ 132,315,518	\$ 132,912,910	\$ 138,205,958
Excess (Deficit) of Revenues						
Over (Under) Expenditures	1,313,562	(29,278)	(1,964,124)	(2,959,311)	452,569	(1,011,143)
Other Financing Sources (Uses):						
Bond Issuance Cost	-	-	-	-	-	-
Refunding Bonding Proceeds	-	-	-	-	7,936,000	-
Interfund Transfers	-	-	-	-	-	-
Premium from issuance of bonds	-	-	-	-	892,842	-
Payments to refunded bond escrow agent	-	-	-	-	(8,951,608)	-
Operating Transfers in	1,907,815	2,257,907	1,978,976	3,183,045	2,103,947	2,061,173
Operating Transfers out	(3,015,000) (2)	(4,375,135) (3)	(2,196,000)	(1,780,000)	(1,482,101)	(1,329,412)
Enterprise fund debt service transfer in	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,107,185) (2)	(2,117,228) (3)	(217,024)	1,403,045	499,080	731,761
Excess of Revenues and Other Sources Less Expenditures and Other Uses	206,377 (2)	(2,146,506) (3)	(2,181,148)	(1,556,266)	951,649	(279,382)
FUND BALANCES, BEGINNING OF FY	9,184,092	9,390,469	7,243,963	5,062,815	3,506,549	9,217,222 (4)
FUND BALANCES, FISCAL YEAR END	\$ 9,390,469 (2)	\$ 7,243,963 (3)	\$ 5,062,815	\$ 3,506,549	\$ 4,458,198	\$ 8,937,840

(1) Extracted from the audited financial statements of the Town.

(2) In fiscal year 2006, the town transferred \$500,000 from the General Fund into the Stabilization Fund.

(3) In fiscal year 2007, the town transferred \$2,000,000 from the General Fund into the Stabilization Fund.

(4) Increase in General Fund Balance from ending balance in FY2010 to beginning balance in FY2011 is attributable to the recent changes in GASB reporting requirements of fund balances.

Undesignated General Fund Balances and Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy.

The following table presents a summary of the Town's undesignated general fund balances, free cash position, and transfers from free cash to reduce the following year's tax levy for the last five fiscal years:

Under the Uniform System of Accounting prescribed by The Commonwealth of Massachusetts Department of Revenue, subject to certain adjustments, free cash is defined as Surplus Revenue (unreserved general fund balance in the Town's case) less uncollected and overdue property taxes from prior years. The table below sets forth the amount of Free Cash for the following fiscal years.

The following table sets forth the trend in the Town's free cash at the end of the last five fiscal years.

Fiscal Year	Undesignated General Fund Balance (1)	Free Cash
2012	\$ 10,772,493 (2)	\$ 4,073,271
2011	8,106,788	1,239,055
2010	3,250,042	1,609,854
2009	3,015,527	1,484,874
2008	3,111,825	2,221,828

(1) Source: Audited Financial Statements. Fiscal 2012 and fiscal 2011 figures are unassigned fund balances.

(2) Extracted from draft financials, subject to revision and change.

Stabilization Fund

The Town maintains a stabilization fund which is accounted for in the Trust Funds. Funded by an annual appropriation, the stabilization fund plus interest income may be appropriated at an annual or special town meeting for any municipal purpose.

The table below lists the Stabilization Fund balances as of the end of the following fiscal years. \$500,000 was appropriated into the fund at the April 2006 Town Meeting and \$2,000,000 was appropriated into the fund at the April 2007 Town Meeting which is included in the table below. A transfer of \$913,953 was made to this fund from the Philips Academy Fund during fiscal 2008. Fiscal 2013 operation budget appropriated \$232,000 to the stabilization fund.

Fiscal Year	Stabilization Fund
2012	\$ 4,745,454
2011	4,599,359
2010	4,433,141
2009	4,279,570
2008	4,084,109

(1) Due to the changes in GASB fund balance reporting practices, Stabilization Fund Balances are included in Unassigned General Fund Balance.

Additional Funds Available for Appropriation

The Town maintains an additional fund which is accounted for in the Trust Funds the balances of which plus interest income may be appropriated at an annual or special town meeting for any municipal purpose. The William Wood Fund, so-called, which was established as an unrestricted gift in 1973, has a balance at June 30, 2011 of \$1,238,958. Phillips Academy also contributes approximately \$165,486 annually to the Town as general fund revenue.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½ (see "Tax Limitations" under "PROPERTY TAXATION" above.) The Town has not approved and has no current plans to approve any development districts at this time.

INDEBTEDNESS

Authorization Procedure and Limitations

Bonds and notes are generally authorized on behalf of the Town by a two-thirds vote of the Town Meeting. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of certain state and county reimbursements are generally authorized by majority vote but provision is made for temporary loans in anticipation of current revenues and federal grants and for other purposes in certain circumstances without town meeting authorization.

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Provision is made in some cities and towns for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the treasurer with the approval of the selectmen.

The general debt limit of the Town of Andover consists of a normal debt limit and a double debt limit. The normal debt limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with state administrative approval.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the

amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as "tax credit bonds" to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years, but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by the increment financings. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

**Direct Debt Summary
As of June 30, 2012 (1)**

Includes subsequent issues, but excludes refunding bonds

General Obligation Bonds:		
Outstanding:		
Water (2)	\$ 10,233,383	
Sewer (3)	24,122,900	
School (4)	29,417,700	
General (5)	14,465,000	
Land Acquisition	<u>5,730,000</u>	
Total Long Term Outstanding		\$ 83,968,983
This Issue of New Money Bonds - Series A		22,055,000
Short Term Indebtedness:		
Bond Anticipation Notes	\$ 2,000,000	
Less:		
To Be Retired with Bond Proceeds	<u>(2,000,000)</u>	
Total Short Term Outstanding		\$ -
Total Direct Debt		<u><u>\$ 106,023,983</u></u>

- (1) \$20,558,700 has been exempted from the provisions of Proposition 2 ½. Excludes refunding bonds.
- (2) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$775,724,699.
- (3) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.
- (4) Subject to the Town's general debt limit, except for \$7,130,352 which is outside the debt limit. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$7,347,888. Said grant payments, which are applicable to both interest and principal, are subject to annual appropriation by the State legislature.
- (5) Subject to the Town's general debt limit. \$5,125,000 is exempt from the limits on Proposition 2 ½.

Debt Ratios

The following table sets forth the ratio of debt to equalized valuation and per capita debt ratios at the end of the five most recent fiscal years. The table considers the principal amount of general obligation bonds and serial notes of the Town of Andover. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues. (See "Direct Debt Summary").

Fiscal Year End	General Obligation Bonds Outstanding	2010 Federal Census Population	Local Assessed Valuation	Per Capita Debt	Ratio Debt To Assessed Valuation
2012	\$ 83,968,983	33,201	\$ 6,798,505,246	\$ 2,529	1.24 %
2011	86,828,019	33,201	6,616,551,562	2,615	1.31
2010	87,909,402	33,201	6,837,657,244	2,648	1.29
2009	92,614,422	33,201	7,160,470,363	2,790	1.29
2008	94,637,588	33,201	7,179,753,075	2,850	1.32

Principal Payments by Purpose

The following table sets forth the principal payments by purpose on outstanding bonds of the Town. As indicated in the table, of the total \$83,968,983 bonds outstanding, \$38,644,353 or approximately 46% of the total outstanding are to be paid by the end of fiscal 2017 and \$65,359,001 or approximately 78% of the debt will be retired at the end of fiscal 2022.

General Obligation Debt Principal Payments by Purpose as of June 30, 2012 (1)

Fiscal Year	School (2)	Water (3)	Sewer (4)	General (5)	Land Acquisition	Total Outstanding
2013	\$ 3,604,900	\$ 827,185	\$ 1,874,700	\$ 1,749,000	\$ 415,000	\$ 8,470,785
2014	3,466,000	709,629	1,875,500	1,558,500	415,000	8,024,629
2015	3,343,000	712,570	1,870,500	1,443,500	410,000	7,779,570
2016	3,294,000	714,613	1,872,000	1,424,000	400,000	7,704,613
2017	2,360,800	719,756	1,840,200	1,344,000	400,000	6,664,756
2018	1,676,000	725,004	1,800,000	1,224,000	390,000	5,815,004
2019	1,658,000	705,358	1,815,000	1,087,000	385,000	5,650,358
2020	1,515,000	705,819	1,850,000	940,000	385,000	5,395,819
2021	1,360,000	711,391	1,835,000	870,000	385,000	5,161,391
2022	1,210,000	682,076	1,820,000	595,000	385,000	4,692,076
2023	1,205,000	637,876	1,395,000	325,000	385,000	3,947,876
2024	835,000	638,792	1,175,000	295,000	380,000	3,323,792
2025	830,000	509,829	845,000	285,000	330,000	2,799,829
2026	825,000	490,987	745,000	280,000	255,000	2,595,987
2027	610,000	497,269	745,000	245,000	200,000	2,297,269
2028	570,000	167,238	455,000	230,000	135,000	1,557,238
2029	445,000	47,991	180,000	210,000	30,000	912,991
2030	300,000	10,000	55,000	165,000	25,000	555,000
2031	205,000	10,000	55,000	115,000	20,000	405,000
2032	105,000	10,000	20,000	80,000	-	215,000
Total	\$ 29,417,700	\$ 10,233,383	\$ 24,122,900	\$ 14,465,000	\$ 5,730,000	\$ 83,968,983

- (1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post employment benefits liability.
- (2) Subject to the Town's general debt limit, except for \$7,130,352 which is outside the debt limit. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$7,347,888. Said grant payments, which are applicable to both interest and principal, are subject to annual appropriation by the State legislature.
- (3) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$775,724,699.
- (4) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.
- (5) Subject to the Town's general debt limit. \$5,125,000 is exempt from the limits on Proposition 2 ½.

Debt Service Requirements

The following table sets forth the required principal and interest payments on all general obligation debt of the Town of Andover as of June 30, 2012.

GENERAL OBLIGATION BONDS AND SERIAL NOTES Debt Service Requirements as of June 30, 2012 (1)

Fiscal Year	Total Principal	Total Interest	Total Principal and Interest	MSBA Subsidy	Net Debt Service
2013	\$ 8,470,785	\$ 2,858,036	\$ 11,328,821	\$ (1,551,447)	\$ 9,777,374
2014	8,024,629	2,602,232	10,626,861	(1,551,447)	9,075,414
2015	7,779,570	2,350,780	10,130,350	(1,551,447)	8,578,903
2016	7,704,613	2,083,601	9,788,214	(1,551,447)	8,236,767
2017	6,664,756	1,820,166	8,484,922	(1,142,100)	7,342,822
2018	5,815,004	1,602,293	7,417,297	-	7,417,297
2019	5,650,358	1,383,724	7,034,082	-	7,034,082
2020	5,395,819	1,152,103	6,547,922	-	6,547,922
2021	5,161,391	956,208	6,117,599	-	6,117,599
2022	4,692,076	778,164	5,470,240	-	5,470,240
2023	3,947,876	621,658	4,569,534	-	4,569,534
2024	3,323,792	498,079	3,821,871	-	3,821,871
2025	2,799,829	387,481	3,187,310	-	3,187,310
2026	2,595,987	286,404	2,882,391	-	2,882,391
2027	2,297,269	195,527	2,492,796	-	2,492,796
2028	1,557,238	121,970	1,679,208	-	1,679,208
2029	912,991	71,149	984,140	-	984,140
2030	555,000	40,119	595,119	-	595,119
2031	405,000	18,659	423,659	-	423,659
2031	215,000	3,494	218,494	-	218,494
Total	<u>\$ 83,968,983</u>	<u>\$ 19,831,848</u>	<u>\$ 103,582,338</u>	<u>\$ (7,347,888)</u>	<u>\$ 96,234,450</u>

(1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post employment benefits liability.

Authorized Unissued Debt and Prospective Financing

Following delivery of the Bonds, the Town will have \$52,200,000 of authorized and unissued debt as follows:

<u>Purpose</u>	<u>Authorization</u>
Land Aquisition	\$ 1,460,000
Sewer (1)	4,700,000
School (2)	34,430,000
Landfill Closure (3)	8,770,000
Water	1,840,000
General Government	1,000,000
Totals	<u>\$ 52,200,000</u>

- (1) Any future financing is expected to be fully-supported by sewer or water user charges and betterment assessments.
- (2) The Town expects to receive reimbursement from the Massachusetts School Building Authority for approximately 36.7% of the project costs for the design and construction of the Bancroft School. This project was authorized on December 6, 2010 in the total amount of \$43,835,000.
- (3) The Town expects the majority of this project to be financed through the Massachusetts Water Pollution Abatement Trust.

Overlapping Debt

The Town of Andover is a member of the Greater Lawrence Regional Vocational Technical High School District, the Merrimack Valley Regional Transit Authority and the Greater Lawrence Sanitary District. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of each of the overlapping entities as of June 30, 2012, the Town's estimated gross share of such debt, and fiscal 2012 dollar assessments.

<u>Overlapping Entity</u>	<u>Outstanding Debt as of June 30, 2012</u>	<u>Andover's Estimated Share(1)</u>	<u>Fiscal 2012 Dollar Assessment(2)</u>
Greater Lawrence Regional Vocational Technical School District(3)	\$ 27,360,000	0.8	% \$ 444,503
Merrimack Valley Regional Transit Authority(4)	-	0.0	152,939
Greater Lawrence Sanitary District(5)	23,672,417	7.1	1,788,240

- (1) Estimated share based on debt service only.
- (2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.
- (3) SOURCE: Greater Lawrence Regional Vocational Technical High School District. Towns may organize regional school districts to carry out general or specialized educational functions. Pursuant to special laws a number of cities may also participate in regional school district, primarily for vocational education. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the district subject to the provisions of the Education Reform Act of 1993. The municipal share is based on the ratio of that member's pupil enrollment to the total pupil enrollment from all the member municipalities in the regional school district as of October 1 of the year proceeding the year for which the apportionment is being determined.
- (4) SOURCE: Merrimack Valley Regional Transit Authority. These are transportation authorities which have been established outside the Boston area. It has been state practice in recent years to provide a portion of their net cost of service, including debt service on their bonds. In addition to the other sources of funds provided by Massachusetts General Laws Chapter 161B from which the regional transit authorities may obtain monies for the payment of the principal of and interest on their obligations, such payment will be further secured by the Commonwealth, which is required to pay to the regional transit authorities amounts duly certified by the administrator of the authority as necessary to pay any principal or interest due or about to come due for such purpose. The remainder of the net cost of service is assessed upon the member cities and towns in proportion to the amount of the net cost incurred on routes within each city or town. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAXATION" above. The Authority currently has no authorized unissued debt.
- (5) SOURCE: Greater Lawrence Sanitary District. Each member community pays for its proportionate share of the District's operating costs based upon the percent of wastewater received from each respective community. Member communities include Andover, Lawrence, Methuen and North Andover and Salem, N.H.

CONTRACTUAL OBLIGATIONS

Obligations to make payments on account of municipal contracts are generally limited to currently available appropriations. A Massachusetts city or town has general statutory authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but in most cases only when funds are available for the first fiscal year; obligations for succeeding fiscal years are in those cases expressly subject to availability and appropriation of funds. Specific authority exists in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal (20 year maximum term) and certain contracts by municipal electric departments. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Andover, at present, has a limited number of contractual obligations. The Town has a solid waste disposal agreement to dispose of their municipal waste through June 30, 2013 at the Waste Management waste-to-energy plant in North Andover, Massachusetts. The agreement does not contain any guaranteed annual tonnage provisions (formally known as GAT) so it is strictly a pay-as-you-go contract for the actual tons delivered.

The second significant contract is the refuse collection and hauling contract with Allied Waste (formerly BFI) which is a one year extension contract. The fiscal year 2011 cost to the Town under the Allied contract was \$900,000. The Town has budgeted \$954,863 for this contract in fiscal 2013.

The third significant contract is the recycling contract with Integrated Paper Recyclers which is also in the third year of a three year contract with the two year option to extend. The fiscal year 2011 cost to the Town under the Integrated Paper Recyclers contract was \$290,000, and the Town has budgeted \$331,200 for this contract in fiscal 2013.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding

schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

The annual required contributions of the Town to each retirement system for the current and last five fiscal years were as follows:

<u>Year Ending</u>	<u>Contributory</u>	<u>Non-Contributory</u>
June 30, 2013 (est.)	\$ 5,496,244	\$ -
June 30, 2012	5,085,067	-
June 30, 2011	4,712,555	-
June 30, 2010	4,635,498	-
June 30, 2009	4,510,979	-
June 30, 2008	4,393,953	-

The unfunded pension benefit obligation of the contributory retirement system on January 1, 2012 was as follows:

Actuarial Accrued Liabilities	\$192,533,656
Market Value of Fund Assets	<u>95,691,831</u>
Unfunded Pension Benefit Obligation	<u>\$96,841,825</u>

SOURCE: Extracted from the audited financial statements. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to Appendix A for a description of these assumptions.

In fiscal 1994, the Retirement System adopted a funding schedule to fully fund the Retirement system by 2028, and in fiscal 1998 unanimously approved the adoption of COLA. The future cost of COLA, as well as the present cost, has been built into the funding schedule and submitted to the state Public Employee Retirement Administration for approval. The Retirement Board has adopted a revised funding schedule designed to eliminate the unfunded actuarial liability by 2040.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The pay-as-you-go cost to the Town for such benefits to town and school department retirees in recent years has been as follows:

<u>Fiscal Year</u>	<u>Benefit Costs</u>
2012	\$ 6,074,876
2011	5,490,553
2010	4,519,517
2009	4,300,775
2008	4,107,000

The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. On January 10, 2009, Massachusetts enacted Chapter 479 of the Acts of 2008 which permits municipalities to establish a trust fund for the purpose of pre-funding this liability in the same manner as traditional pension benefits.

The Town has performed an actuarial valuation study of its non-pension, post-employment benefits. As of June 30, 2011, the Town's unfunded actuarial accrued liability is approximately \$214,553,663 (assuming an 4.5% discount rate) and the annual required contributions is \$15,429,089. At the April 2010 town meeting, the Town accepted the state legislation establishing a trust fund for OPEB purposes. As of June 30, 2011 the trust fund had a balance of \$704,009. As of June 30, 2012 the trust fund had a balance of \$706,248.

EMPLOYEE RELATIONS

The Town employs approximately 1,373 full and part-time workers, of whom 1,009 are employed by the School Department, 72 by the Fire Department, 59 by the Police Department, 95 by the Public Works and Maintenance Departments, and the balance of the employees are in various other departments of the Town. Town and school employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Of the 1,373 full and part-time employees of the Town, 1,288 are represented by unions including employees of the school, police, fire and public works departments. The contracts for the food service workers, instructional assistants and school secretaries' contracts expires on June 30, 2014. The contracts with the fire, public works, and custodians expired on June 30, 2014. The school administrators and teachers' contract expired on June 30, 2014. The police superior officers, patrolmen and dispatchers signed a one year contract that will end June 30, 2014. New contract negotiations are currently underway.

LITIGATION

At present there are cases pending in various courts throughout the Commonwealth where the Town of Andover is a defendant. In the opinion of the Town, none of the pending litigation is likely to result, either individually or in the aggregate, in a final judgment against the Town that would materially affect its financial position.

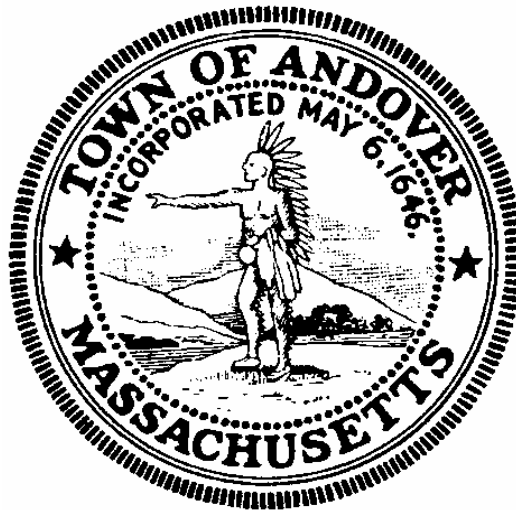
TOWN OF ANDOVER, MASSACHUSETTS
/s/ David J. Reilly, Treasurer

December 12, 2012

TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2011



Prepared by:

Rodney Smith, Town Accountant

TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

Independent Auditors' Report	A-1
Management's Discussion and Analysis	A-3
Basic Financial Statements.....	A-13
Statement of Net Assets.....	A-14
Statement of Activities	A-15
Governmental funds – balance sheet	A-17
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	A-18
Governmental funds – statement of revenues, expenditures and changes in fund balances	A-19
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	A-20
Proprietary funds – statement of net assets.....	A-21
Proprietary funds – statement of revenues, expenses and changes in fund net assets	A-22
Proprietary funds – statement of cash flows	A-23
Fiduciary funds – statement of fiduciary net assets	A-24
Fiduciary funds – statement of changes in fiduciary net assets.....	A-25
Notes to basic financial statements.....	A-27



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
Town of Andover, 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 Andover, Massachusetts, as of and for the fiscal year ended June 30, 2011, (except for the Andover Contributory Retirement System which is as of and for the 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 Andover, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the Town of Andover, 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, Andover Contributory Retirement System schedule of funding progress and 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 is supplementary information required by 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.

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

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

A handwritten signature in black ink that reads "Powers & Sullivan LLC". The signature is written in a cursive, flowing style.

December 15, 2011

Management's Discussion and Analysis

This page intentionally left blank.

Management's Discussion and Analysis

As management of the Town of Andover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Financial Highlights

- At the close of the current fiscal year, the Town's general fund reported combined ending fund balances of \$8.9 million which represents 7% of total general fund budgetary basis expenditures.
- The assets of the Town of Andover exceeded liabilities at the close of the most recent fiscal year by \$129.5 million (net assets).
- The Town's noncurrent governmental liabilities (excluding debt) increased by \$10.2 million, which was primarily due to the recognition of other postemployment benefit (OPEB) liabilities and an increase in the estimated landfill closure liability.
- The Town's total governmental debt (short-term and long-term combined) decreased by (\$1.8) million during the current fiscal year. This was due to the net effect of \$4.3 million and \$5.9 million in principal payments on short-term and long-term debt, respectively, and the issuance of \$1.6 million and \$6.8 million in short-term and long-term debt, respectively, which was primarily for school construction, public works, building renovations, land acquisition and infrastructure.
- The Town's total business-type debt (short-term and long-term combined) decreased by (\$2.3) million during the current fiscal year. This was due to the net effect of \$300,000 and \$2.8 million in principal payments on short-term and long-term debt, respectively and the issuance of \$800,000 in long-term debt for infrastructure improvements.
- The Town adopted GASB Statement No. 54 in fiscal year 2011, which provides a more structured classification of fund balance and improves the usefulness of fund balance reporting to the users of the Town's financial statements. See note 8 for more information.

Overview of the Financial Statements

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

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

The *statement of net 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 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, plant and facilities, public safety, education, public works, community services, library, and interest. The business-type activities include the activities of water and sewer services.

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

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

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

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. Additionally, under the new standard, the Town's stabilization fund is reported within the general fund as unassigned.

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Andover's assets exceeded liabilities by \$129.5 million at the close of fiscal year 2011, which was a decrease of \$8.8 million from the prior year.

Net assets of \$141 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$4 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 of \$15.4 million. The primary reason for this deficit balance is the recognition of OPEB liabilities.

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

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

Governmental Activities

The Town's assets exceeded liabilities for governmental activities by \$63.7 million at the close of fiscal year 2011.

	FY11	FY10
Assets:		
Current assets.....	\$ 35,501,787	\$ 37,560,244
Noncurrent assets (excluding capital).....	7,063,013	9,043,732
Capital assets.....	132,770,376	130,869,431
Total assets	175,335,176	177,473,407
Liabilities:		
Current liabilities (excluding debt).....	6,993,842	8,623,839
Noncurrent liabilities (excluding debt).....	51,759,000	41,591,000
Current debt.....	7,760,365	10,288,182
Noncurrent debt.....	45,126,893	45,231,355
Total liabilities	111,640,100	105,734,376
Net Assets:		
Capital assets net of related debt.....	93,315,362	93,007,654
Restricted.....	3,976,293	3,796,181
Unrestricted.....	(33,596,579)	(25,064,804)
Total net assets	\$ 63,695,076	\$ 71,739,031

	<u>FY11</u>	<u>FY10</u>
Program revenues:		
Charges for services.....	\$ 11,076,940	\$ 11,373,195
Operating grants and contributions.....	26,543,902	26,038,045
Capital grants and contributions.....	1,637,668	1,062,707
General Revenues:		
Real estate and personal property taxes.....	103,594,344	100,368,252
Motor vehicle and other excise taxes.....	6,011,320	5,473,045
Nonrestricted grants.....	2,070,906	2,083,892
Unrestricted investment income.....	315,873	550,684
Other revenues.....	1,458,706	1,147,483
Total revenues.....	<u>152,709,659</u>	<u>148,097,303</u>
Expenses:		
General government.....	7,849,705	7,853,717
Plant and facilities.....	5,868,634	5,610,304
Public safety.....	21,454,951	20,464,627
Education.....	109,991,085	109,285,301
Public works.....	8,104,996	7,086,407
Community services.....	3,473,959	3,410,882
Library.....	4,004,711	4,158,325
Interest.....	1,733,882	1,692,345
Total expenses.....	<u>162,481,923</u>	<u>159,561,908</u>
Excess (deficiency) before transfers.....	(9,772,264)	(11,464,605)
Transfers.....	<u>1,728,309</u>	<u>1,887,803</u>
Change in net assets.....	\$ <u>(8,043,955)</u>	\$ <u>(9,576,802)</u>

The governmental expenses totaled \$162.5 million of which \$39.3 million (24%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$113.5 million, primarily coming from property taxes, motor vehicle excise, and non-restricted state aid.

The governmental net assets decreased by \$8 million during the current fiscal year. This was primarily due to the recognition of \$9.6 million of OPEB liabilities, a \$614,000 increase in the landfill closure liability and negative budgetary results in the general fund totaling \$719,000; which were offset by a \$1.4 million capital grant from the Massachusetts Highway Department, a \$260,000 capital grant for the purchase of conservation land, and a \$1.6 million increase in the remaining major and non-major funds that is primarily due to timing differences between the receipt and disbursement of grant funds.

The \$1 million increase in public works expense is primarily due to a \$640,000 increase in snow and ice removal costs and a \$614,000 increase in the estimated landfill closure liability.

Business-Type Activities

For the Town's business-type activities, assets exceeded liabilities by \$65.8 million at the close of fiscal year 2011.

	Business-type Activities	
	FY11	FY10
Assets:		
Current assets.....	\$ 12,957,284	\$ 12,530,634
Noncurrent assets (excluding capital).....	11,493,196	12,530,095
Capital assets.....	78,426,783	80,779,423
Total assets.....	102,877,263	105,840,152
Liabilities:		
Current liabilities (excluding debt).....	489,767	617,394
Noncurrent liabilities (excluding debt).....	1,028,000	856,000
Current debt.....	2,654,741	3,065,689
Noncurrent debt.....	32,929,150	34,802,018
Total liabilities.....	37,101,658	39,341,101
Net Assets:		
Capital assets net of related debt.....	47,534,459	47,608,658
Unrestricted.....	18,241,146	18,890,393
Total net assets.....	\$ 65,775,605	\$ 66,499,051
Program revenues:		
Charges for services.....	\$ 11,534,946	\$ 10,198,163
Capital grants and contributions.....	41,759	229,534
General Revenues:		
Unrestricted investment income.....	9,521	14,785
Total revenues.....	11,586,226	10,442,482
Expenses:		
Water.....	6,143,129	5,423,483
Sewer.....	4,438,234	4,662,645
Total expenses.....	10,581,363	10,086,128
Excess (deficiency) before transfers.....	1,004,863	356,354
Transfers.....	(1,728,309)	(1,887,803)
Change in net assets.....	\$ (723,446)	\$ (1,531,449)

Business-type net assets of \$47.5 million (72%) represent the investment in capital assets while \$18.2 million (28%) is unrestricted. The Town's business-type net assets decreased by \$723,000 in the current fiscal year.

The water department net assets increased by \$182,000. The increase was due to better than anticipated consumption, which was offset by increases in non-capitalizable expenses such as water chemicals, OPEB costs and a contribution to the OPEB trust.

The sewer department net assets decreased by \$905,000. The decrease in net assets is mainly attributable to \$1 million of sewer betterment revenues that were recognized in prior year financial statements, under the accrual basis of accounting, that were used to fund current year expenses for the sewer fund.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18.5 million, of which \$8.9 million is for the general fund, \$4.8 million is for Town grants/other revolving funds and \$4.8 million is for nonmajor governmental funds. Cumulatively there was an increase of \$1.3 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8.1 million, while total fund balance was \$8.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 6.4% of total general fund budgetary expenditures, while total fund balance represents 7.1% of that same amount. The general fund experienced a decrease of \$279,000, which is primarily due to expenditures of prior year encumbrances exceeding current year encumbrances.

The Town grants/other revolving fund experienced an increase of \$265,000. This is primarily due to timing differences between the receipt and expenditure of grant funds.

The highway construction fund recognized \$1 million dollars in grant revenues and \$1 million dollar in highway construction costs.

The nonmajor funds experienced an increase of \$1.3 million due to timing differences between the receipt and expenditure of grant funds and the permanent financing and expenditure of capital project funds.

General Fund Budgetary Highlights

The \$1.1 million increase between the original budget and the final amended budget was primarily due to supplemental appropriations including \$120,000 for health insurance, \$300,000 to fund the OPEB trust fund, and \$500,000 for public works.

Capital Asset and Debt Administration

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

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

- Governmental additions to land, machinery and equipment, land improvements, infrastructure, vehicles and library books totaling \$8 million.
- Business-type additions of \$297,000 in sewer infrastructure and machinery and equipment and \$433,000 in water machinery and equipment and land improvements.

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

Outstanding long-term debt for governmental activities, as of June 30, 2011, totaled \$51.2 million, of which \$32 million is related to school projects and \$7.7 million is for public safety projects and the remaining balance of \$11.5 million is for other CIP related projects. The Town issued \$6.8 million of long-term bonds to fund school projects, public works, plant and facilities and land acquisition.

The Commonwealth of Massachusetts is obligated to provide school construction grants for approved school projects. The grants are paid annually to support future interest expense on school construction related long-term debt and the construction costs funded by that debt. At June 30, 2011 the Town is scheduled to receive \$697,000 of future interest grants and \$8.2 million of capital grants. The payment schedule of the Commonwealth is structured to match the debt service expenditures.

In fiscal year 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2011, the Town has recorded capital grant proceeds totaling \$264,000, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$411,000 of grant proceeds in fiscal 2012.

The Town has \$1.6 million in governmental bond anticipation notes outstanding at year-end that are due on February 24, 2012 and bearing interest rates ranging from .9% to 1.25%.

The sewer and water enterprise funds have \$25.2 million and \$10.4 million, respectively of outstanding long-term debt at year-end that is fully supported by rates and does not rely on a general fund subsidy.

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

Requests for Information

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

This page intentionally left blank.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 18,215,558	\$ 8,254,418	\$ 26,469,976
Investments.....	7,170,713	-	7,170,713
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,809,460	-	1,809,460
Tax liens.....	1,334,698	40,814	1,375,512
Motor vehicle and other excise taxes.....	518,137	-	518,137
User fees.....	-	3,837,040	3,837,040
Departmental and other.....	407,832	-	407,832
Special assessments.....	-	825,012	825,012
Intergovernmental.....	5,795,229	-	5,795,229
Tax foreclosures.....	250,160	-	250,160
Total current assets.....	<u>35,501,787</u>	<u>12,957,284</u>	<u>48,459,071</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	166,283	-	166,283
Intergovernmental.....	6,896,730	-	6,896,730
Special assessments.....	-	11,493,196	11,493,196
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	31,424,886	381,147	31,806,033
Depreciable.....	<u>101,345,490</u>	<u>78,045,636</u>	<u>179,391,126</u>
Total noncurrent assets.....	<u>139,833,389</u>	<u>89,919,979</u>	<u>229,753,368</u>
TOTAL ASSETS.....	<u>175,335,176</u>	<u>102,877,263</u>	<u>278,212,439</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	937,605	75,043	1,012,648
Accrued payroll.....	3,107,813	25,978	3,133,791
Tax refunds payable.....	402,000	-	402,000
Accrued interest.....	500,243	243,856	744,099
Abandoned property.....	23,322	-	23,322
Other liabilities.....	26,859	8,890	35,749
Landfill closure.....	269,000	-	269,000
Compensated absences.....	1,343,000	136,000	1,479,000
Workers' compensation.....	384,000	-	384,000
Notes payable.....	1,613,000	-	1,613,000
Bonds payable.....	<u>6,147,365</u>	<u>2,654,741</u>	<u>8,802,106</u>
Total current liabilities.....	<u>14,754,207</u>	<u>3,144,508</u>	<u>17,898,715</u>
NONCURRENT:			
Landfill closure.....	13,380,000	-	13,380,000
Compensated absences.....	3,290,000	274,000	3,564,000
Other postemployment benefits.....	35,089,000	754,000	35,843,000
Bonds payable.....	<u>45,126,893</u>	<u>32,929,150</u>	<u>78,056,043</u>
Total noncurrent liabilities.....	<u>96,885,893</u>	<u>33,957,150</u>	<u>130,843,043</u>
TOTAL LIABILITIES.....	<u>111,640,100</u>	<u>37,101,658</u>	<u>148,741,758</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	93,315,362	47,534,459	140,849,821
Restricted for:			
Permanent funds:			
Expendable.....	476,601	-	476,601
Nonexpendable.....	1,259,811	-	1,259,811
Grants and gifts.....	2,239,881	-	2,239,881
Unrestricted.....	<u>(33,596,579)</u>	<u>18,241,146</u>	<u>(15,355,433)</u>
TOTAL NET ASSETS.....	<u>\$ 63,695,076</u>	<u>\$ 65,775,605</u>	<u>\$ 129,470,681</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 7,849,705	\$ 1,130,365	\$ 239,305	\$ 259,600	\$ (6,220,435)
Plant and facilities.....	5,868,634	-	-	-	(5,868,634)
Public safety.....	21,454,951	3,649,023	441,618	-	(17,364,310)
Education.....	109,991,085	4,447,671	24,783,904	-	(80,759,510)
Public works.....	8,104,996	160,993	291,749	1,378,068	(6,274,186)
Community services.....	3,473,959	1,658,122	290,891	-	(1,524,946)
Library.....	4,004,711	30,766	121,927	-	(3,852,018)
Interest.....	1,733,882	-	374,508	-	(1,359,374)
Total Governmental Activities.....	<u>162,481,923</u>	<u>11,076,940</u>	<u>26,543,902</u>	<u>1,637,668</u>	(123,223,413)
<i>Business-Type Activities:</i>					
Water.....	6,143,129	7,539,658	-	1,559	1,398,088
Sewer.....	4,438,234	3,995,288	-	40,200	(402,746)
Total Business-Type Activities.....	<u>10,581,363</u>	<u>11,534,946</u>	<u>-</u>	<u>41,759</u>	995,342
Total Primary Government.....	<u>\$ 173,063,286</u>	<u>\$ 22,611,886</u>	<u>\$ 26,543,902</u>	<u>\$ 1,679,427</u>	\$ (122,228,071)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (123,223,413)	\$ 995,342	\$ (122,228,071)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	103,594,344	-	103,594,344
Tax liens.....	352,839	-	352,839
Motor vehicle excise taxes.....	4,722,659	-	4,722,659
Hotel/motel tax.....	1,288,661	-	1,288,661
Meals tax.....	478,403	-	478,403
Penalties and interest on taxes.....	409,888	-	409,888
Grants and contributions not restricted to specific programs.....	2,070,906	-	2,070,906
Unrestricted investment income.....	315,873	9,521	325,394
Miscellaneous.....	217,576	-	217,576
<i>Transfers, net</i>	1,728,309	(1,728,309)	-
Total general revenues, special items, and transfers.	115,179,458	(1,718,788)	113,460,670
Change in net assets.....	(8,043,955)	(723,446)	(8,767,401)
<i>Net Assets:</i>			
Beginning of year.....	71,739,031	66,499,051	138,238,082
End of year.....	\$ <u>63,695,076</u>	\$ <u>65,775,605</u>	\$ <u>129,470,681</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

	General	Town Grants/ Other Revolving	Highway Construction	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 8,200,051	\$ 2,288,164	\$ -	\$ 6,625,392	\$ 17,113,607
Investments.....	4,599,959	2,570,754	-	-	7,170,713
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,809,460	-	-	-	1,809,460
Real estate tax deferrals.....	166,283	-	-	-	166,283
Tax liens.....	1,334,698	-	-	-	1,334,698
Motor vehicle and other excise taxes.....	518,137	-	-	-	518,137
Departmental and other.....	319,975	87,857	-	-	407,832
Intergovernmental.....	8,202,072	-	3,937,262	552,625	12,691,959
Tax foreclosures.....	250,160	-	-	-	250,160
TOTAL ASSETS.....	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 541,845	\$ 46,220	\$ -	\$ 347,790	\$ 935,855
Accrued payroll.....	3,035,142	-	-	72,671	3,107,813
Tax refunds payable.....	402,000	-	-	-	402,000
Abandoned property.....	23,322	-	-	-	23,322
Other liabilities.....	26,859	-	-	-	26,859
Deferred revenues.....	12,433,787	77,736	3,937,262	410,643	16,859,428
Notes payable.....	-	-	-	1,613,000	1,613,000
TOTAL LIABILITIES.....	16,462,955	123,956	3,937,262	2,444,104	22,968,277
FUND BALANCES:					
Nonspendable.....	-	-	-	1,259,811	1,259,811
Restricted.....	-	4,822,819	-	3,474,102	8,296,921
Committed.....	13,999	-	-	-	13,999
Assigned.....	817,053	-	-	-	817,053
Unassigned.....	8,106,788	-	-	-	8,106,788
TOTAL FUND BALANCES.....	8,937,840	4,822,819	-	4,733,913	18,494,572
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849

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.....	\$	18,494,572
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		132,770,376
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		16,859,428
Internal service funds are used by management to account for unemployment, health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		716,201
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(500,243)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and payable.....	(51,274,258)	
Landfill closure.....	(13,649,000)	
Compensated absences.....	(4,633,000)	
Other postemployment benefits.....	<u>(35,089,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(104,645,258)</u>
Net assets of governmental activities.....	\$	<u>63,695,076</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	Town Grants/ Other Revolving	Highway Construction	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 103,357,190	\$ -	\$ -	\$ -	\$ 103,357,190
Tax liens.....	250,075	-	-	-	250,075
Motor vehicle excise taxes.....	4,589,014	-	-	-	4,589,014
Hotel/motel tax.....	1,288,661	-	-	-	1,288,661
Meals tax.....	478,403	-	-	-	478,403
Charges for services.....	-	48,994	-	-	48,994
Penalties and interest on taxes.....	409,888	-	-	-	409,888
Fees.....	-	295,981	-	-	295,981
Licenses and permits.....	1,506,207	-	-	-	1,506,207
Fines and forfeitures.....	-	1,500	-	-	1,500
Intergovernmental.....	22,167,301	1,179,781	1,047,020	5,784,335	30,178,437
Departmental and other.....	2,917,888	2,853,358	-	4,273,089	10,044,335
Contributions.....	-	21,002	-	17,347	38,349
Investment income.....	230,188	71,072	-	49,114	350,374
TOTAL REVENUES.....	137,194,815	4,471,688	1,047,020	10,123,885	152,837,408
EXPENDITURES:					
Current:					
General government.....	4,939,219	528,170	-	-	5,467,389
Plant and facilities.....	4,501,505	56,732	-	-	4,558,237
Public safety.....	14,258,639	1,481,352	-	388	15,740,379
Education.....	62,350,888	340,728	-	9,547,487	72,239,103
Public works.....	5,714,338	62,188	1,045,348	46,361	6,868,235
Community services.....	1,656,498	1,110,055	-	1,391	2,767,944
Library.....	2,529,870	94,318	-	32,494	2,656,682
Pension benefits.....	16,231,461	-	-	-	16,231,461
Property and liability insurance.....	734,996	-	-	-	734,996
Employee benefits.....	14,919,349	258,120	-	-	15,177,469
State and county charges.....	2,860,658	-	-	-	2,860,658
Capital outlay.....	-	-	-	7,213,849	7,213,849
Debt service:					
Principal.....	5,865,696	-	-	-	5,865,696
Interest.....	1,642,841	-	-	-	1,642,841
TOTAL EXPENDITURES.....	138,205,958	3,931,663	1,045,348	16,841,970	160,024,939
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,011,143)	540,025	1,672	(6,718,085)	(7,187,531)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds and notes.....	-	-	-	6,750,000	6,750,000
Transfers in.....	2,061,173	23,412	-	1,627,407	3,711,992
Transfers out.....	(1,329,412)	(298,864)	-	(355,407)	(1,983,683)
TOTAL OTHER FINANCING SOURCES (USES)...	731,761	(275,452)	-	8,022,000	8,478,309
NET CHANGE IN FUND BALANCES.....	(279,382)	264,573	1,672	1,303,915	1,290,778
FUND BALANCES AT BEGINNING OF YEAR, AS REVISED.....	9,217,222	4,558,246	(1,672)	3,429,998	17,203,794
FUND BALANCES AT END OF YEAR.....	\$ 8,937,840	\$ 4,822,819	\$ -	\$ 4,733,913	\$ 18,494,572

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..... \$ 1,290,778

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.....	7,957,162
Depreciation expense.....	<u>(6,049,464)</u>

Net effect of reporting capital assets..... 1,907,698

The net effect of other miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets..... (6,753)

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..... (193,393)

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 bonds and notes.....	(6,750,000)
Debt service principal payments.....	5,865,696
Deferral of premium on bonds and notes payable.....	137,486
Amortization of deferred charges on refunding.....	<u>(174,982)</u>

Net effect of reporting long-term debt..... (921,800)

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.....	(80,000)
Net change in accrued interest on long-term debt.....	(53,545)
Net change in other postemployment benefits.....	(9,616,000)
Net change in landfill closure liability.....	<u>(614,000)</u>

Net effect of recording long-term liabilities and amortizing deferred losses..... (10,363,545)

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..... 243,060

Change in net assets of governmental activities..... \$ (8,043,955)

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
	Water	Sewer	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents..... \$	4,145,360	\$ 4,109,058	\$ 8,254,418	\$ 1,101,951
Receivables, net of allowance for uncollectibles:				
User fees.....	2,483,054	1,353,986	3,837,040	-
Water and sewer liens.....	24,773	16,041	40,814	-
Special assessments.....	-	825,012	825,012	-
Total current assets.....	<u>6,653,187</u>	<u>6,304,097</u>	<u>12,957,284</u>	<u>1,101,951</u>
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Special assessments.....	69	11,493,127	11,493,196	-
Capital assets, net of accumulated depreciation:				
Nondepreciable.....	266,017	115,130	381,147	-
Depreciable.....	38,125,334	39,920,302	78,045,636	-
Total noncurrent assets.....	<u>38,391,420</u>	<u>51,528,559</u>	<u>89,919,979</u>	<u>-</u>
TOTAL ASSETS.....	<u>45,044,607</u>	<u>57,832,656</u>	<u>102,877,263</u>	<u>1,101,951</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	51,176	23,867	75,043	1,750
Accrued payroll.....	20,489	5,489	25,978	-
Accrued interest.....	66,258	177,598	243,856	-
Other liabilities.....	-	8,890	8,890	-
Compensated absences.....	112,000	24,000	136,000	-
Workers' compensation.....	-	-	-	384,000
Bonds payable.....	853,741	1,801,000	2,654,741	-
Total current liabilities.....	<u>1,103,664</u>	<u>2,040,844</u>	<u>3,144,508</u>	<u>385,750</u>
NONCURRENT:				
Compensated absences.....	209,000	65,000	274,000	-
Other postemployment benefits.....	621,000	133,000	754,000	-
Bonds payable.....	9,576,150	23,353,000	32,929,150	-
Total noncurrent liabilities.....	<u>10,406,150</u>	<u>23,551,000</u>	<u>33,957,150</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>11,509,814</u>	<u>25,591,844</u>	<u>37,101,658</u>	<u>385,750</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	30,106,921	17,427,538	47,534,459	-
Unrestricted.....	3,427,872	14,813,274	18,241,146	716,201
TOTAL NET ASSETS..... \$	<u><u>33,534,793</u></u>	<u><u>32,240,812</u></u>	<u><u>65,775,605</u></u>	<u><u>716,201</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<u>OPERATING REVENUES:</u>				
Employee contributions	\$ -	\$ -	\$ -	\$ 4,097,407
Employer contributions	-	-	-	14,767,146
Charges for services	7,539,658	3,995,288	11,534,946	-
TOTAL OPERATING REVENUES	<u>7,539,658</u>	<u>3,995,288</u>	<u>11,534,946</u>	<u>18,864,553</u>
<u>OPERATING EXPENSES:</u>				
Cost of services and administration	3,963,953	2,226,551	6,190,504	-
Depreciation.....	1,850,370	1,205,649	3,056,019	-
Employee benefits	-	-	-	18,581,814
Property and liability insurance.....	-	-	-	42,188
TOTAL OPERATING EXPENSES	<u>5,814,323</u>	<u>3,432,200</u>	<u>9,246,523</u>	<u>18,624,002</u>
OPERATING INCOME (LOSS).....	<u>1,725,335</u>	<u>563,088</u>	<u>2,288,423</u>	<u>240,551</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	3,075	6,446	9,521	2,509
Interest expense.....	(328,806)	(1,006,034)	(1,334,840)	-
Special assessments - betterments.....	1,559	40,200	41,759	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(324,172)</u>	<u>(959,388)</u>	<u>(1,283,560)</u>	<u>2,509</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>1,401,163</u>	<u>(396,300)</u>	<u>1,004,863</u>	<u>243,060</u>
<u>TRANSFERS:</u>				
Transfers out.....	(1,219,373)	(508,936)	(1,728,309)	-
CHANGE IN NET ASSETS.....	181,790	(905,236)	(723,446)	243,060
NET ASSETS AT BEGINNING OF YEAR.....	<u>33,353,003</u>	<u>33,146,048</u>	<u>66,499,051</u>	<u>473,141</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 33,534,793</u>	<u>\$ 32,240,812</u>	<u>\$ 65,775,605</u>	<u>\$ 716,201</u>

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
	Water	Sewer	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users..... \$	7,290,192	\$ 4,041,659	\$ 11,331,851	\$ 4,097,407
Receipts from interfund services provided.....	-	-	-	14,767,146
Payments to vendors.....	(2,475,074)	(1,762,844)	(4,237,918)	(42,188)
Payments to employees.....	(1,494,593)	(402,888)	(1,897,481)	(77,537)
Payments for interfund services used.....	-	-	-	(18,423,228)
NET CASH FROM OPERATING ACTIVITIES.....	3,320,525	1,875,927	5,196,452	321,600
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out.....	(1,219,373)	(508,936)	(1,728,309)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	300,000	500,000	800,000	-
Acquisition and construction of capital assets.....	(432,591)	(297,150)	(729,741)	-
Principal payments on bonds and notes.....	(975,689)	(2,090,000)	(3,065,689)	-
Special assessments.....	3,118	1,083,135	1,086,253	-
Interest expense.....	(297,273)	(1,014,576)	(1,311,849)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(1,402,435)	(1,818,591)	(3,221,026)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	3,075	6,446	9,521	2,509
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	701,792	(445,154)	256,638	324,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	3,443,568	4,554,212	7,997,780	777,842
CASH AND CASH EQUIVALENTS AT END OF YEAR..... \$	4,145,360	\$ 4,109,058	\$ 8,254,418	\$ 1,101,951
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss)..... \$	1,725,335	\$ 563,088	\$ 2,288,423	\$ 240,551
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,850,370	1,205,649	3,056,019	-
Changes in assets and liabilities:				
Water and sewer liens.....	(6,978)	(3,673)	(10,651)	-
User fees.....	(242,488)	50,044	(192,444)	-
Warrants payable.....	(110,058)	(1,511)	(111,569)	(29,951)
Accrued payroll.....	2,344	1,007	3,351	-
Other postemployment benefits.....	166,000	43,000	209,000	-
Other liabilities.....	-	323	323	-
Accrued compensated absences.....	(64,000)	18,000	(46,000)	-
Workers' compensation.....	-	-	-	111,000
Total adjustments.....	1,595,190	1,312,839	2,908,029	81,049
NET CASH FROM OPERATING ACTIVITIES..... \$	3,320,525	\$ 1,875,927	\$ 5,196,452	\$ 321,600

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 645,293	\$ 704,009	\$ 146,209	\$ 901,764
Investments:				
PRIT funds.....	85,639,281	-	-	-
Government sponsored enterprises.....	-	-	1,141,270	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	2,729,153	-	-	-
TOTAL ASSETS.....	89,013,727	704,009	1,287,479	901,764
LIABILITIES				
Warrants payable.....	350	-	-	-
Liabilities due depositors.....	-	-	-	901,764
TOTAL LIABILITIES.....	350	-	-	901,764
NET ASSETS				
Held in trust for pension benefits, OPEB benefits, and other purposes.....	\$ 89,013,377	\$ 704,009	\$ 1,287,479	\$ -

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)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 4,767,127	\$ 658,120	\$ -
Employee.....	3,037,677	-	-
Total contributions.....	7,804,804	658,120	-
Net investment income (loss):			
Net change in fair value of investments.....	8,103,491	-	215,782
Interest.....	2,283,216	45,889	2,909
Total investment income (loss).....	10,386,707	45,889	218,691
Less: investment expense.....	(371,292)	-	-
Net investment income (loss).....	10,015,415	45,889	218,691
Intergovernmental.....	119,554	-	-
Transfers from other systems.....	498,603	-	-
TOTAL ADDITIONS.....	18,438,376	704,009	218,691
DEDUCTIONS:			
Administration.....	181,784	-	8,435
Transfers to other systems.....	309,907	-	-
Retirement benefits and refunds.....	9,184,711	-	-
Educational scholarships.....	-	-	14,734
TOTAL DEDUCTIONS.....	9,676,402	-	23,169
CHANGE IN NET ASSETS.....	8,761,974	704,009	195,522
NET ASSETS AT BEGINNING OF YEAR.....	80,251,403	-	1,091,957
NET ASSETS AT END OF YEAR.....	\$ 89,013,377	\$ 704,009	\$ 1,287,479

See notes to basic financial statements.

This page intentionally left blank.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated and governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint venture with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Greater Lawrence Regional Technical Vocational School (GLRTVS)

The GLRTVS is governed by a seven member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the GLRTVS' debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town does not have an equity interest in the GLRTVS. For the fiscal year ended June 30, 2011, the Town's assessment totaled \$484,694. Separate financial statements may be obtained by writing to the Treasurer of the GLRTVS at 57 River Road, Andover, MA 01810.

Blended Component Units

Blended component units are entities that are legally separate from the Town, but are so related 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 following component unit is blended within the primary government:

In the Fiduciary Funds:

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

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures 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, and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The following major governmental funds are reported:

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

The *town grants/other revolving fund* is used to account for the non-school related activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and grant funds received from state and federal governments which are designated for specific programs.

The *highway construction fund* is used to account for the construction and reconstruction of the Town's roadways. These projects are funded by state grants from the Massachusetts Highway Department.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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

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

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

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

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

The following major proprietary funds are reported:

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

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

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

Government-Wide and Fund Financial Statements

For enterprise fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes, and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes

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

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

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

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

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

Motor Vehicle Excise

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

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

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at fiscal year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and are included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

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

Departmental and Other

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

Intergovernmental

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

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. Capital assets (excluding land and construction-in-progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5
Library books.....	10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding

between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

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 have been "restricted for" the following:

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

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

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

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that 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.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“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. 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 gross of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

O. Fund Deficits

The worker's compensation fund has a deficit of \$340,297 that will be funded by employer contributions.

P. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column*Government-Wide Financial Statements*

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

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

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

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

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

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Andover's deposits may not be returned to it. The Town's policy allows unlimited deposits in bank accounts or CD's (up to one year maturity) that are fully collateralized through a third party agreement. For uncollateralized bank accounts and CD's, deposits may not exceed Federal Deposit Insurance Corporation (FDIC) or other deposit insurance coverage unless the bank has received the highest bank rating as determined by a recognized bank rating firm. These deposits will be limited to no more than 5% of an institution's assets and no more than 10% of the Town's cash. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. CD's will be purchased for no more than three months and will be reviewed frequently. The Town's policy also allows unlimited investments in money market funds, which are allowed by statute and are considered to be liquid funds.

At fiscal year-end, the carrying amount of deposits totaled \$25,290,651 and the bank balance totaled \$28,206,698. Of the bank balance, \$1,955,018 was covered by Federal Depository Insurance and \$26,251,680 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2010, the carrying amount of deposits for the Retirement System totaled \$645,293 and the bank balance totaled \$698,506. The bank balance was covered by Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments of \$458,852 in government agencies, \$6,711,862 in government sponsored enterprises, \$25,000 in corporate bonds and \$264,868 in equity securities, the Town has a custodial credit risk exposure of \$7,460,582 because the related securities are uninsured, unregistered and held by the counterparty. The Town's policy requires all securities, not held directly by the Town, to be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer.

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

Interest Rate Risk

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

As of June 30, 2011, the Town of Andover had the following investments:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities:				
Government agencies.....	\$ 458,852	\$ -	\$ 458,852	\$ -
Government sponsored enterprises.....	6,711,862	614,148	4,424,147	1,673,567
Corporate bonds.....	25,000	-	25,000	-
Total debt securities.....	7,195,714	\$ 614,148	\$ 4,907,999	\$ 1,673,567
Other Investments:				
Money market mutual funds.....	1,539,904			
Equity securities.....	264,868			
Equity mutual funds.....	851,401			
MMDT.....	1,391,403			
Total investments.....	\$ 11,243,290			

Approximately \$704,000 of investments included in the table above are reported in the Other Postemployment Benefits Trust fund.

As of December 31, 2010, the Retirement System had the following investments:

Investment Type	Fair Value
PRIT.....	\$ 85,639,281

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

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

Credit Risk

The Town’s investment policy limits investments in debt securities to United States Treasuries and Agency obligations, which carry a AAA rating and other investments that must be in high grade securities, a high concentration of which must be rated A and above. Standard & Poor’s Investors Service rated \$6,711,862 of government sponsored enterprise securities AAA, \$25,000 of corporate bonds AA and \$1,391,403 of MMDT shares were unrated.

The Retirement System has not adopted a formal policy related to Credit Risk and \$85,639,281 of PRIT shares were unrated.

Concentration of Credit Risk

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

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

NOTE 3 – RECEIVABLES

At June 30, 2011, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,809,460	\$ -	\$ 1,809,460
Real estate tax deferrals.....	166,283	-	166,283
Tax liens.....	1,334,698	-	1,334,698
Motor vehicle and other excise taxes.....	1,116,391	(598,254)	518,137
Departmental and other.....	632,139	(224,307)	407,832
Intergovernmental.....	12,691,959	-	12,691,959
Total.....	<u>\$ 17,750,930</u>	<u>\$ (822,561)</u>	<u>\$ 16,928,369</u>

At June 30, 2011, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 2,483,054	\$ -	\$ 2,483,054
Sewer user fees.....	1,353,986	-	1,353,986
Water liens.....	24,773	-	24,773
Sewer liens.....	16,041	-	16,041
Water special assessments.....	69	-	69
Sewer special assessments.....	12,318,139	-	12,318,139
Total.....	<u>\$ 16,196,062</u>	<u>\$ -</u>	<u>\$ 16,196,062</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,632,341	\$ -	\$ 1,632,341
Real estate tax deferrals.....	166,283	-	166,283
Tax liens.....	1,334,698	-	1,334,698
Tax foreclosure.....	250,160	-	250,160
Motor vehicle and other excise.....	518,137	-	518,137
Departmental.....	330,096	77,736	407,832
Intergovernmental.....	8,202,072	4,347,905	12,549,977
Total.....	<u>\$ 12,433,787</u>	<u>\$ 4,425,641</u>	<u>\$ 16,859,428</u>

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 29,433,517	\$ 469,776	\$ -	\$ 29,903,293
Construction in progress.....	<u>435,529</u>	<u>1,239,932</u>	<u>(153,868)</u>	<u>1,521,593</u>
Total capital assets not being depreciated.....	<u>29,869,046</u>	<u>1,709,708</u>	<u>(153,868)</u>	<u>31,424,886</u>
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	137,061,570	-	-	137,061,570
Machinery and equipment.....	8,882,849	639,035	-	9,521,884
Land improvements.....	13,869,753	3,780,458	-	17,650,211
Infrastructure.....	33,715,917	1,426,642	-	35,142,559
Vehicles.....	5,632,329	215,187	(101,012)	5,746,504
Library books.....	<u>5,827,120</u>	<u>340,000</u>	<u>-</u>	<u>6,167,120</u>
Total capital assets being depreciated.....	<u>204,989,538</u>	<u>6,401,322</u>	<u>(101,012)</u>	<u>211,289,848</u>
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(67,000,806)	(2,951,033)	-	(69,951,839)
Machinery and equipment.....	(5,732,160)	(892,710)	-	(6,624,870)
Land improvements.....	(3,020,622)	(802,384)	-	(3,823,006)
Infrastructure.....	(20,685,615)	(736,644)	-	(21,422,259)
Vehicles.....	(3,320,353)	(312,963)	94,259	(3,539,057)
Library books.....	<u>(4,229,597)</u>	<u>(353,730)</u>	<u>-</u>	<u>(4,583,327)</u>
Total accumulated depreciation.....	<u>(103,989,153)</u>	<u>(6,049,464)</u>	<u>94,259</u>	<u>(109,944,358)</u>
Total capital assets being depreciated, net.....	<u>101,000,385</u>	<u>351,858</u>	<u>(6,753)</u>	<u>101,345,490</u>
Total governmental activities capital assets, net.....	<u>\$ 130,869,431</u>	<u>\$ 2,061,566</u>	<u>\$ (160,621)</u>	<u>\$ 132,770,376</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,130	\$ -	\$ -	\$ 115,130
Construction in progress.....	27,997	-	(27,997)	-
Total capital assets not being depreciated.....	143,127	-	(27,997)	115,130
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	1,281,181	-	-	1,281,181
Machinery and equipment.....	863,294	202,504	-	1,065,798
Infrastructure.....	52,146,614	122,643	-	52,269,257
Vehicles.....	91,351	-	-	91,351
Total capital assets being depreciated.....	54,382,440	325,147	-	54,707,587
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(912,842)	(32,030)	-	(944,872)
Machinery and equipment.....	(81,141)	(104,049)	-	(185,190)
Infrastructure.....	(12,503,032)	(1,062,840)	-	(13,565,872)
Vehicles.....	(84,621)	(6,730)	-	(91,351)
Total accumulated depreciation.....	(13,581,636)	(1,205,649)	-	(14,787,285)
Total capital assets being depreciated, net.....	40,800,804	(880,502)	-	39,920,302
Total sewer business-type activities capital assets, net.....	\$ 40,943,931	\$ (880,502)	\$ (27,997)	\$ 40,035,432
Water Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 266,017	\$ -	\$ -	\$ 266,017
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	40,000	-	-	40,000
Machinery and equipment.....	1,918,749	294,539	-	2,213,288
Land improvements.....	720,236	138,052	-	858,288
Infrastructure.....	80,985,625	-	-	80,985,625
Vehicles.....	247,749	-	(14,558)	233,191
Total capital assets being depreciated.....	83,912,359	432,591	(14,558)	84,330,392
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(40,000)	-	-	(40,000)
Machinery and equipment.....	(518,430)	(99,727)	-	(618,157)
Land improvements.....	(28,273)	(20,381)	-	(48,654)
Infrastructure.....	(43,549,989)	(1,724,381)	-	(45,274,370)
Vehicles.....	(232,554)	(5,881)	14,558	(223,877)
Total accumulated depreciation.....	(44,369,246)	(1,850,370)	14,558	(46,205,058)
Total capital assets being depreciated, net.....	39,543,113	(1,417,779)	-	38,125,334
Total water business-type activities capital assets, net.....	\$ 39,809,130	\$ (1,417,779)	\$ -	\$ 38,391,351

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

Governmental Activities:

General government.....	\$ 241,016
Public safety.....	591,305
Education.....	3,350,115
Public works.....	1,020,922
Plant and facilities.....	118,720
Library.....	607,899
Community services.....	<u>119,487</u>

Total depreciation expense - governmental activities..... \$ 6,049,464

Business-Type Activities:

Sewer.....	\$ 1,205,649
Water.....	<u>1,850,370</u>

Total depreciation expense - business-type activities..... \$ 3,056,019

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Town Grants/ Other Revolving	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 23,412	\$ 1,306,000	\$ 1,329,412 (1)
Town Grants/Other Revolving.....	298,864	-	-	298,864 (2)
Nonmajor Governmental Funds.....	34,000	-	321,407	355,407 (3)
Water Enterprise Fund.....	1,219,373	-	-	1,219,373 (4)
Sewer Enterprise Fund.....	<u>508,936</u>	<u>-</u>	<u>-</u>	<u>508,936 (4)</u>
Total.....	<u>\$ 2,061,173</u>	<u>\$ 23,412</u>	<u>\$ 1,627,407</u>	<u>\$ 3,711,992</u>

- (1) Represents a transfer to the capital projects funds for the current year capital article, and a reserve fund transfer to the special revenue fund.
- (2) Represents a transfer from receipts reserved for appropriation to the General fund.
- (3) Represents various transfers between Nonmajor Governmental funds, as well as a transfer from perpetual care to the General Fund.
- (4) Represents the transfer of indirect costs to the general fund.

NOTE 6 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, is as follows:

Governmental Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2010	Renewed/ Issued	Retired/ Redeemed	June 30, 2011
RAN	School building renovation.....	1.00%	02/11/10	\$ 1,960,000	\$ -	\$ 1,960,000	\$ -
BAN	Landfill closure.....	1.00%	02/25/11	300,000	-	300,000	-
BAN	Land acquisition.....	1.00%	02/25/11	100,000	-	100,000	-
BAN	Town building renovation.....	1.00%	02/25/11	650,000	-	650,000	-
BAN	Blanchard street ballfield.....	1.00%	02/25/11	100,000	-	100,000	-
BAN	Bridge repairs.....	1.00%	02/25/11	400,000	-	400,000	-
BAN	Drainage.....	1.00%	02/25/11	280,000	-	280,000	-
BAN	Drainage.....	1.00%	02/25/11	195,000	-	195,000	-
BAN	Bancroft school study.....	1.00%	02/25/11	300,000	-	300,000	-
BAN	Landfill closure.....	1.25%	02/24/12	-	600,000	-	600,000
BAN	Bancroft school study.....	1.25%	02/24/12	-	525,000	-	525,000
BAN	Landfill closure.....	0.90%	02/24/12	-	100,000	-	100,000
BAN	Ambulance.....	0.90%	02/24/12	-	225,000	-	225,000
BAN	Building renovations.....	0.90%	02/24/12	-	163,000	-	163,000
Total Governmental.....				\$ 4,285,000	\$ 1,613,000	\$ 4,285,000	\$ 1,613,000

Enterprise Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2010	Renewed/ Issued	Retired/ Redeemed	June 30, 2011
BAN	Sewer project.....	1.00%	02/25/11	\$ 300,000	\$ -	\$ 300,000	\$ -

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In prior years, the Town defeased certain of its outstanding general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable escrow account to provide amounts sufficient for the future payment of principal and interest on those bonds. Accordingly, neither the assets in the escrow nor the liability for the defeased bonds are included in the Town's financial statements. At June 30, 2011, \$8.2 million of general obligation bonds outstanding are considered defeased.

Details related to the outstanding indebtedness at June 30, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Public safety.....	2.00 - 5.00	\$ 8,528,461	\$ -	\$ 833,461	\$ 7,695,000 (1)
School projects.....	2.00 - 5.72	31,114,038	4,610,000	3,689,841	32,034,197 (1)
Public works.....	2.75 - 5.13	2,248,000	780,000	563,000	2,465,000 (2)
Plant and facilities.....	2.75 - 5.00	2,148,000	750,000	315,000	2,583,000 (1)
Land acquisition.....	3.50 - 5.98	5,930,000	610,000	395,000	6,145,000 (1)
Culture and recreation.....	2.75 - 5.00	373,196	-	69,394	303,802 (1)
Total governmental bonds payable.....		50,341,695	6,750,000	5,865,696	51,225,999
Add: unamortized premium.....		892,842	-	137,486	755,356
Less: deferred charges on refunding.....		(882,079)	-	(174,982)	(707,097)
Total governmental bonds payable, net....		\$ 50,352,458	\$ 6,750,000	\$ 5,828,200	\$ 51,274,258

(1) Debt issued to finance Town capital expenditures.

(2) Debt issued to finance Town capital expenditures with the exception of \$710,000 for landfill closure.

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

Fiscal Year	Principal	Interest	Total
2012..... \$	6,174,000 \$	2,009,641 \$	8,183,641
2013.....	5,363,000	1,646,890	7,009,890
2014.....	5,049,500	1,478,863	6,528,363
2015.....	4,814,499	1,312,588	6,127,087
2016.....	4,745,000	1,137,875	5,882,875
2017.....	3,790,002	968,790	4,758,792
2018.....	3,105,000	837,379	3,942,379
2019.....	2,955,000	713,622	3,668,622
2020.....	2,655,000	588,139	3,243,139
2021.....	2,435,000	481,251	2,916,251
2022.....	2,015,000	390,100	2,405,100
2023.....	1,764,998	311,425	2,076,423
2024.....	1,310,000	247,526	1,557,526
2025.....	1,255,000	200,916	1,455,916
2026.....	1,170,000	144,523	1,314,523
2027.....	865,000	102,370	967,370
2028.....	765,000	68,148	833,148
2029.....	515,000	38,922	553,922
2030.....	315,000	21,002	336,002
2031.....	165,000	7,220	172,220
Totals..... \$	<u>51,225,999 \$</u>	<u>12,707,188 \$</u>	<u>63,933,187</u>

Bonds and Notes Payable Schedule – Enterprise Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Sewer projects.....	2.75 - 5.00	\$ 26,444,000	\$ 500,000	\$ 1,790,000	\$ 25,154,000 (1)
Water projects.....	2.00 - 5.61	<u>11,123,707</u>	<u>300,000</u>	<u>975,689</u>	<u>10,448,018 (1)</u>
Total enterprise bonds payable.....		37,567,707	800,000	2,765,689	35,602,018
Less: deferred charges on refunding.....		<u>(25,488)</u>	<u>-</u>	<u>(7,361)</u>	<u>(18,127)</u>
Total enterprise bonds payable, net.....		<u>\$ 37,542,219</u>	<u>\$ 800,000</u>	<u>\$ 2,758,328</u>	<u>\$ 35,583,891</u>

(1) Debt issued to finance Town capital expenditures.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 2,661,036	\$ 1,272,348	\$ 3,933,384
2013.....	2,561,785	1,183,975	3,745,760
2014.....	2,450,129	1,100,914	3,551,043
2015.....	2,455,070	1,017,366	3,472,436
2016.....	2,464,613	929,067	3,393,680
2017.....	2,444,756	836,535	3,281,291
2018.....	2,435,004	746,806	3,181,810
2019.....	2,430,358	652,844	3,083,202
2020.....	2,470,819	554,232	3,025,051
2021.....	2,471,391	458,171	2,929,562
2022.....	2,442,076	363,782	2,805,858
2023.....	2,027,876	276,244	2,304,120
2024.....	1,793,792	201,694	1,995,486
2025.....	1,304,829	145,405	1,450,234
2026.....	1,185,987	99,083	1,285,070
2027.....	1,192,268	56,808	1,249,076
2028.....	577,238	24,001	601,239
2029.....	182,991	8,852	191,843
2030.....	25,000	2,188	27,188
2031.....	25,000	1,094	26,094
Totals.....	<u>\$ 35,602,018</u>	<u>\$ 9,931,407</u>	<u>\$ 45,533,425</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, approximately \$1,551,000 of such assistance was received. Approximately \$8,899,000 will be received in future fiscal years. Of this amount, approximately \$697,000 represents reimbursement of long-term interest costs, and approximately \$8,202,000 represents reimbursement of approved construction costs. Accordingly, an \$8,202,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal year 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2011, the Town has recorded capital grant proceeds totaling \$264,000, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$411,000 of grant proceeds in fiscal 2012.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2011, the Town had the following authorized and unissued debt:

Purpose	Amount
Land acquisition.....	\$ 660,000
Landfill.....	9,070,000
Municipal buildings.....	1,388,000
Public safety.....	225,000
Public works.....	1,986,000
School projects.....	47,060,000
Sewer projects.....	3,925,000
Water projects.....	2,390,000
Total.....	\$ 66,704,000

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds payable.....	\$ 50,341,695	\$ 6,750,000	\$ (5,865,696)	\$ 51,225,999	\$ 6,147,365
Add: unamortized premium.....	892,842	-	(137,486)	755,356	-
Less: deferred charges on refunding..	(882,079)	-	174,982	(707,097)	-
Total bonds payable.....	50,352,458	6,750,000	(5,828,200)	51,274,258	6,147,365
Other postemployment benefits.....	25,473,000	15,388,000	(5,772,000)	35,089,000	-
Workers' compensation.....	273,000	273,000	(162,000)	384,000	384,000
Compensated absences.....	4,553,000	1,377,000	(1,297,000)	4,633,000	1,343,000
Landfill closure.....	13,035,000	696,000	(82,000)	13,649,000	269,000
Total governmental activity long-term liabilities.....	<u>\$ 93,686,458</u>	<u>\$ 24,484,000</u>	<u>\$ (13,141,200)</u>	<u>\$ 105,029,258</u>	<u>\$ 8,143,365</u>
Business-Type Activities:					
Long-term bonds and notes.....	\$ 37,567,707	\$ 800,000	\$ (2,765,689)	\$ 35,602,018	\$ 2,654,741
Less: deferred charges on refunding..	(25,488)	-	7,361	(18,127)	-
Total bonds payable.....	37,542,219	800,000	(2,758,328)	35,583,891	2,654,741
Other postemployment benefits.....	545,000	316,000	(107,000)	754,000	-
Compensated absences.....	456,000	99,000	(145,000)	410,000	136,000
Total business-type activity long-term liabilities.....	<u>\$ 38,543,219</u>	<u>\$ 1,215,000</u>	<u>\$ (3,010,328)</u>	<u>\$ 36,747,891</u>	<u>\$ 2,790,741</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, internal service fund accrued liabilities for workers' compensation of \$384,000 is included above. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its fiscal year 2011 reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. 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	Town Grants/ Other Revolving	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Cemetery.....	\$ -	\$ -	\$ 868,186	\$ 868,186
Library.....	-	-	5,000	5,000
Town welfare/other.....	-	-	386,625	386,625
Restricted for:				
Town grants/other revolving.....	-	4,822,819	-	4,822,819
School grants/other revolving.....	-	-	992,789	992,789
School lunch.....	-	-	381,152	381,152
Road/drainage projects.....	-	-	595,596	595,596
School projects.....	-	-	138,487	138,487
Conservation.....	-	-	178,473	178,473
Municipal buildings.....	-	-	580,991	580,991
Other.....	-	-	130,013	130,013
Cemetery.....	-	-	153,737	153,737
Library.....	-	-	51,853	51,853
Town welfare/other.....	-	-	271,011	271,011
Committed to:				
General government.....	13,461	-	-	13,461
Community services.....	538	-	-	538
Assigned to:				
General government.....	23,439	-	-	23,439
Public safety.....	248,676	-	-	248,676
Education.....	225,616	-	-	225,616
Public works.....	91,263	-	-	91,263
Plant and facilities.....	144,774	-	-	144,774
Community services.....	28,076	-	-	28,076
Property and liability insurance.....	2,400	-	-	2,400
Employee benefits.....	52,809	-	-	52,809
Unassigned.....	8,106,788	-	-	8,106,788
TOTAL FUND BALANCES.....	\$ 8,937,840	\$ 4,822,819	\$ 4,733,913	\$ 18,494,572

Massachusetts General Law Ch. 40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At fiscal year end, the balance of the general stabilization fund is \$4,894,400 and is reported as unassigned fund balance within the General Fund.

In accordance with GASB Statement No. 54, the stabilization fund has been reported in the general fund, and accordingly, the general fund beginning balance increased by \$4,759,024 and the revised balance totals \$9,217,222.

NOTE 9 – RISK FINANCING

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

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

(a) *Workers’ Compensation*

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

At June 30, 2011, the amount of the liability for workers’ compensation claims totaled \$384,000. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2010.....	\$ 285,000	\$ 96,000	\$ (108,000)	\$ 273,000	\$ 193,000
Fiscal Year 2011.....	273,000	273,000	(162,000)	384,000	384,000

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$11,519,000 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

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

At December 31, 2010, the System's membership consists of the following:

Active members.....	677
Inactive members.....	133
Disabled members.....	36
Retirees and beneficiaries currently receiving benefits.....	<u>345</u>
Total.....	<u>1,191</u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were \$4,712,555, \$4,583,113 and \$4,458,594, respectively, which equaled its required contribution for each fiscal year. At June 30, 2011, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.0% investment rate of return and projected salary increases of 4.75%, 5.00% and 5.25% per year for groups 1, 2 and 4, respectively. The actuarial value of the System's assets is determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an increasing basis. The remaining amortization period at January 1, 2010, was 30 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding by fiscal 2040. The Town's funded rate was 55% as of the last actuarial valuation.

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

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

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

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to

the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$13,649,000 as the estimate of the landfill closure liability at June 30, 2011, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town implemented the provisions of GASB Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and established its "Other Postemployment Benefit Trust Fund". The Town voted to begin pre-funding its OPEB liabilities through the use of this fund.

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

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

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

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund to begin pre-funding its OPEB liabilities. During fiscal year 2011, the Town pre-funded future OPEB liabilities totaling \$704,000.

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.....	\$ 15,439,000
Interest on net OPEB obligation.....	1,171,000
Adjustment to annual required contribution.....	<u>(906,000)</u>
Annual OPEB cost (expense).....	15,704,000
Contributions made.....	<u>(5,879,000)</u>
Increase in net OPEB obligation.....	9,825,000
Net OPEB obligation-beginning of year.....	<u>26,018,000</u>
Net OPEB obligation-end of year.....	<u>\$ 35,843,000</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 15,704,000	37%	\$ 35,843,000
6/30/2010	18,878,000	29%	26,018,000
6/30/2009	18,051,000	30%	12,688,000

Funded Status and Funding Progress – As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$215.3 million, of which the Town has funded \$704 thousand as of June 30, 2011. The covered payroll (annual payroll of active employees covered by the plan) was \$87 million, and the ratio of the UAAL to the covered payroll was 246.5%.

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

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

In the June 30, 2011 actuarial valuation, actuarial liabilities were determined using the projected unit credit 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 care inflation rate of 10% initially, graded to 5% over 10 years. The UAAL is being amortized over a 30-year period, using the level percentage of projected payroll method, on a closed basis, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2011 is 27 years.

NOTE 13 – COMMITMENTS

The Town has contracted with Allied Waste (formerly BFI) for refuse collection and hauling through June 30, 2014. The fiscal year 2011 cost to the Town under the Allied contract is approximately \$900,000.

The Town has contracted with Integrated Paper for recycling collection and hauling through June 30, 2011 and is in the process of finalizing a new agreement through June 30, 2014. The fiscal year 2011 cost to the Town under the Integrated Paper contract is approximately \$248,000.

The Town has entered into or is planning to enter into contracts totaling approximately \$43.8 million for the construction of the new Bancroft elementary school. The Town has expended approximately \$3.3 million as of June 30, 2011 towards completion of the project.

The Town has entered into or is planning to enter into contracts totaling approximately \$1.5 million for the West elementary school roofing project. The Town has not incurred expenditures as of June 30, 2011 to complete the project.

The Town has entered into or is planning to enter into contracts totaling approximately \$60.2 million for the construction of various water and sewer infrastructure projects. The Town has expended approximately \$50.6 million as of June 30, 2011 to complete the projects.

NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 15 – 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, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. 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, was implemented in fiscal year 2011 and did not impact the 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. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on 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. Management's current assessment is that this pronouncement will not have a significant impact on 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.

THIS PAGE INTENTIONALLY LEFT BLANK



EDWARDS WILDMAN PALMER LLP
111 HUNTINGTON AVENUE
BOSTON, MA 02199
+1 617 239 0100 main +1 617 227 4420 fax
edwardswildman.com

(Date of Delivery)

David J. Reilly, Treasurer
Town of Andover
Andover, Massachusetts

\$22,055,000
Town of Andover, Massachusetts
General Obligation Municipal Purpose Loan of 2012 Bonds, Series A
Dated December 19, 2012

We have acted as bond counsel to the Town of Andover, Massachusetts (the "Town") in connection with the issuance by the Town of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we

have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Wildman Palmer LLP

(Date of Delivery)

David J. Reilly, Treasurer
Town of Andover
Andover, Massachusetts

\$4,595,000
Town of Andover, Massachusetts
General Obligation Refunding Bonds, Series B
Dated December 19, 2012

We have acted as bond counsel to the Town of Andover, Massachusetts (the “Town”) in connection with the issuance by the Town of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we

have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Wildman Palmer LLP

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Andover, Massachusetts (the “Town”) in connection with the issuance of its \$22,055,000 General Obligation Municipal Purpose Loan of 2012 Bonds, Series A dated December 19, 2012 (the “Series A Bonds”) and \$4,595,000 General Obligation Refunding Bonds, Series B dated December 19, 2012 (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”). The Town covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Town for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Town pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Town shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Town may be submitted when available separately from the balance of the Annual Report.

(b) If the Town is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Town shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Town's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Town's Official Statement dated December 12, 2012 relating to the Bonds regarding (i) the revenues and expenditures of the Town relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Town, (vi) pension obligations of the Town, and (vii) other post-employment benefits liability of the Town, and

(b) the most recently available audited financial statements of the Town, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Town or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Town shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Town shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
 8. Bond calls, if material, and tender offers.
 9. Defeasances.
 10. Release, substitution or sale of property securing repayment of the Bonds, if material.
 11. Rating changes.
 12. Bankruptcy, insolvency, receivership or similar event of the Town.*
 13. The consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Town shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Town's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption (with respect to the Series A Bonds) or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Town shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Town may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town.

evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Town), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Town to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Town to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Town of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Town to comply with this Disclosure Certificate shall be an action for specific performance of the Town's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: December __, 2012

TOWN OF ANDOVER,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]