TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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MH&Co

MELANSON HEATH & COMPANY, PC

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Douglas, 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 Douglas, Massachusetts, as of and for the year ended June 30, 2007, 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 Douglas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 Douglas, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements, but is supplementary information required by the *Governmental Accounting Standards Board*. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 22, 2008 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
April 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Douglas, we offer readers this narrative overview and analysis of the financial activities of the Town of Douglas for the fiscal year ended June 30, 2007.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a 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, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water/sewer, and transfer station activities.

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

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

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

***Proprietary funds*.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, and transfer station operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/sewer, and transfer station operations, all of which are considered to be major funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 37,312,406 (i.e., net assets), a change of \$ (299,123) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,239,694, a change of \$ 94,327 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,094,378, a change of \$ (223,149) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 21,979,377, a change of \$ (1,116,630) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 15,798	\$ 16,462	\$ 1,593	\$ 2,211	\$ 17,391	\$ 18,673
Capital assets	31,805	33,167	11,390	11,371	43,195	44,538
Total assets	47,603	49,629	12,983	13,582	60,586	63,211
Long-term liabilities outstanding	13,908	13,996	6,904	8,271	20,812	22,267
Other liabilities	1,991	3,208	471	124	2,462	3,332
Total liabilities	15,899	17,204	7,375	8,395	23,274	25,599
Net assets:						
Invested in capital assets, net	17,457	17,242	4,324	3,537	21,781	20,779
Restricted	1,498	4,569	-	-	1,498	4,569
Unrestricted	12,749	10,614	1,284	1,650	14,033	12,264
Total net assets	\$ 31,704	\$ 32,425	\$ 5,608	\$ 5,187	\$ 37,312	\$ 37,612

CHANGES IN NET ASSETS

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006	Total 2007	Total 2006
Revenues:						
Program revenues:						
Charges for services	$ 1,741	$ 2,011	$ 1,151	$ 1,039	$ 2,892	$ 3,050
Operating grants and contributions	9,378	10,139	-	149	9,378	10,288
Capital grants and contributions	116	-	-	-	116	-
General revenues:						
Property taxes	9,988	10,300	-	-	9,988	10,300
Excises	890	1,066	-	-	890	1,066
Penalties and interest on taxes	134	77	-	-	134	77
Grants and contributions not restricted to specific programs	1,157	-	-	-	1,157	-
Investment income	270	273	-	7	270	280
Other	192	417	59	-	251	417
Total revenues	23,866	24,283	1,210	1,195	25,076	25,478
Expenses:						
General government	1,751	1,361	-	-	1,751	1,361
Public safety	2,122	2,098	-	-	2,122	2,098
Education	15,365	14,162	-	-	15,365	14,162
Public works	1,060	1,001	-	-	1,060	1,001
Human services	165	184	-	-	165	184
Culture and recreation	244	239	-	-	244	239
Employee benefits	2,596	3,096	-	-	2,596	3,096
Intergovernmental	607	704	-	-	607	704
Interest on long-term debt	322	22	-	-	322	22
Water	-	-	887	763	887	763
Sewer	-	-	257	264	257	264
Total expenses	24,232	22,867	1,144	1,027	25,376	23,894
Change in net assets before transfers	(366)	1,416	66	168	(300)	1,584
Transfers in (out)	(355)	(322)	355	322	-	-
Increase in net assets	(721)	1,094	421	490	(300)	1,584
Net assets - beginning of year (as restated)	32,425	31,331	5,187	4,697	37,612	36,028
Net assets - end of year	$ 31,704	$ 32,425	$ 5,608	$ 5,187	$ 37,312	$ 37,612

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were $ 37,312,406, a change of $ (299,123) from the prior year.

The largest portion of net assets $ 21,780,996 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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 $ 1,497,743 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $ 14,033,667 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of $ (720,333). Key elements of this change are as follows:

General fund operating results	$ 299,568
Stabilization fund deficit	(304,558)
Nonmajor funds surplus	99,317
Excess depreciation over principal maturities, a budgeted expense	(494,346)
Other GAAP accruals	(320,314)
Total	$ (720,333)

Business-type activities. Business-type activities for the year resulted in a change in net assets of $ 421,210. Key elements of this change are as follows:

Water/sewer operations	$ 413,124
Transfer station operations	8,086
Total	$ 421,210

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used 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, unreserved 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 $ 6,239,694, a change of $ 94,327 in comparison with the prior year. Key elements of this change are as follows:

General fund operating results	$ 299,568
Stabilization fund deficit	(304,558)
Nonmajor funds surplus	99,317
Total	$ 94,327

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was $ 1,094,378, while total fund balance was $ 2,521,045. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.2 percent of total general fund expenditures, while total fund balance represents 11.9 percent of that same amount.

The fund balance of the general fund changed by $ 299,568 during the current fiscal year. Key factors in this change are as follows:

Excess state and local revenues over budget	$ 350,218
Budgetary appropriation surplus	473,002
Shortfall tax collections over budget	(166,651)
Excess of current year encumbered appropriations to be spent in subsequent year over prior year encumbrances spent in the current year	304,629
Use of free cash	(671,371)
Use of overlay surplus	(60,000)
Other uses	69,741
Total	$ 299,568

***Proprietary funds*.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to $ 1,284,388, a change of $ (366,176) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of $ 9,800. The increase was for the Waterway Dive Rescue team appropriations, and was funded from the Waterway Improvement Fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to $ 43,195,177 (net of accumulated depreciation), a change of $ (1,343,293) from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- Increase in construction in progress on the wastewater treatment plant of $ 159,654.

Additional information on capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was $ 21,979,377, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Douglas'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:

Office of the Town Accountant

Town of Douglas

29 Depot Street

Douglas, MA 01516

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	$ 6,792,700	$ 1,283,754	$ 8,076,454
Receivables, net of allowance for uncollectibles:			
Property taxes	505,267	-	505,267
Excises	38,008	-	38,008
User fees	-	144,326	144,326
Departmental and other	92,215	-	92,215
Intergovernmental	534,045	164,532	698,577
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	97,573	-	97,573
Intergovernmental	7,739,011	-	7,739,011
Capital assets:			
Land and construction in progress	3,017,756	7,822,411	10,840,167
Other capital assets, net of accumulated depreciation	28,786,964	3,568,046	32,355,010
TOTAL ASSETS	47,603,539	12,983,069	60,586,608
LIABILITIES			
Current:			
Warrants payable	477,480	47,911	525,391
Accrued liabilities	291,096	78,904	370,000
Other current liabilities	69,367	-	69,367
Current portion of long-term liabilities:			
Bonds payable	1,091,290	343,892	1,435,182
Landfill	12,200	-	12,200
Compensated absence	5,418	-	5,418
Capital lease	45,311	-	45,311
Noncurrent:			
Bonds payable, net of current portion	13,640,035	6,904,160	20,544,195
Landfill, net of current portion	158,600	-	158,600
Compensated absence, net of current portion	102,943	-	102,943
Capital lease, net of current portion	5,595	-	5,595
TOTAL LIABILITIES	15,899,335	7,374,867	23,274,202
NET ASSETS			
Invested in capital assets, net of related debt	17,457,182	4,323,814	21,780,996
Restricted for:			
Grants and other statutory restrictions	1,378,417	-	1,378,417
Permanent funds:			
Nonexpendable	51,444	-	51,444
Expendable	67,882	-	67,882
Unrestricted	12,749,279	1,284,388	14,033,667
TOTAL NET ASSETS	$ 31,704,204	$ 5,608,202	$ 37,312,406

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	$ 1,750,769	$ 180,523	$ 205,362	$ -	$ (1,364,884)	$ -	$ (1,364,884)
Public safety	2,121,676	396,634	23,969	-	(1,701,073)	-	(1,701,073)
Education	15,364,814	1,125,605	9,113,346	-	(5,125,863)	-	(5,125,863)
Public works	1,060,336	38,265	-	116,448	(905,623)	-	(905,623)
Health and human services	165,446	-	12,083	-	(153,363)	-	(153,363)
Culture and recreation	244,260	-	22,810	-	(221,450)	-	(221,450)
Employee benefits	2,595,654	-	-	-	(2,595,654)	-	(2,595,654)
Interest	607,333	-	-	-	(607,333)	-	(607,333)
Intergovernmental	321,850	-	-	-	(321,850)	-	(321,850)
Total Governmental Activities	24,232,138	1,741,027	9,377,570	116,448	(12,997,093)	-	(12,997,093)
Business-Type Activities:							
Water/Sewer services	887,054	889,716	-	-	-	2,662	2,662
Transfer station services	256,875	261,301	-	-	-	4,426	4,426
Total Business-Type Activities	1,143,929	1,151,017	-	-	-	7,088	7,088
Total	$ 25,376,067	$ 2,892,044	$ 9,377,570	$ 116,448	(12,997,093)	7,088	(12,990,005)
		General Revenues:					
		Property taxes			9,987,744	-	9,987,744
		Excises			889,799	-	889,799
		Penalties, interest and other taxes			134,892	-	134,892
		Grants and contributions not restricted to specific programs			1,157,537	-	1,157,537
		Investment income			270,407	-	270,407
		Miscellaneous			191,765	58,738	250,503
		Transfers, net			(355,384)	355,384	-
		Total general revenues and transfers			12,276,760	414,122	12,690,882
		Change in Net Assets			(720,333)	421,210	(299,123)
		Net Assets:					
		Beginning of year, as restated			32,424,537	5,186,992	37,611,529
		End of year			$ 31,704,204	$ 5,608,202	$ 37,312,406

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	$ 3,024,399	$ 1,811,555	$ 1,956,746	$ 6,792,700
Receivables:				
Property taxes	752,767	-	-	752,767
Excises	148,948	-	-	148,948
Departmental and other	155	-	102,289	102,444
Intergovernmental	-	-	18,110	18,110
TOTAL ASSETS	$ 3,926,269	$ 1,811,555	$ 2,077,145	$ 7,814,969
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	$ 427,828	$ -	$ 49,651	$ 477,479
Accrued liabilities	160,921	-	-	160,921
Deferred revenues	747,108	-	120,400	867,508
Other liabilities	69,367	-	-	69,367
TOTAL LIABILITIES	1,405,224	-	170,051	1,575,275
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	631,338	-	-	631,338
Expenditures	660,300	-	-	660,300
Perpetual (nonexpendable) permanent funds	-	-	51,444	51,444
Other specific purposes	135,029	-	-	135,029
Unreserved:				
General fund	1,094,378	-	-	1,094,378
Special revenue funds	-	1,811,555	1,403,981	3,215,536
Capital project funds	-	-	383,787	383,787
Permanent funds	-	-	67,882	67,882
TOTAL FUND BALANCES	2,521,045	1,811,555	1,907,094	6,239,694
TOTAL LIABILITIES AND FUND BALANCES	$ 3,926,269	$ 1,811,555	$ 2,077,145	$ 7,814,969

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Total governmental fund balances	$ 6,239,694
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	31,804,720
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	596,412
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(130,175)
• MSBA receivable not reported in governmental funds	8,254,945
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(15,061,392)
Net assets of governmental activities	$ 31,704,204

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 10,237,862	$ -	$ -	$ 10,237,862
Excises	988,759	-	-	988,759
Penalties, interest and other taxes	134,892	-	-	134,892
Charges for services	10,135	-	1,391,842	1,401,977
Intergovernmental	9,020,089	-	1,571,401	10,591,490
Licenses and permits	203,552	-	-	203,552
Fines and forfeitures	43,438	-	-	43,438
Investment income	164,017	100,179	6,211	270,407
Miscellaneous	179,663	-	54,056	233,719
Total Revenues	20,982,407	100,179	3,023,510	24,106,096
Expenditures:				
Current:				
General government	1,571,662	-	117,267	1,688,929
Public safety	1,912,750	-	44,273	1,957,023
Education	11,858,026	-	2,321,050	14,179,076
Public works	884,287	-	144,787	1,029,074
Health and human services	157,583	-	7,863	165,446
Culture and recreation	216,901	-	17,256	234,157
Employee benefits	2,594,703	-	-	2,594,703
Debt service	1,621,127	-	-	1,621,127
Intergovernmental	321,850	-	-	321,850
Total Expenditures	21,138,889	-	2,652,496	23,791,385
Excess (deficiency) of revenues over expenditures	(156,482)	100,179	371,014	314,711
Other Financing Sources (Uses):				
Proceeds of bonds	135,000	-	-	135,000
Transfers in	852,349	172,915	3,000	1,028,264
Transfers out	(531,299)	(577,652)	(274,697)	(1,383,648)
Total Other Financing Sources (Uses)	456,050	(404,737)	(271,697)	(220,384)
Change in fund balance	299,568	(304,558)	99,317	94,327
Fund Equity, at Beginning of Year, as restated	2,221,477	2,116,113	1,807,777	6,145,367
Fund Equity, at End of Year	$ 2,521,045	$ 1,811,555	$ 1,907,094	$ 6,239,694

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 94,327
• 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 purchases	124,922
Depreciation	(1,487,460)
• 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.	(238,908)
• 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:	
Issuance of debt	(135,000)
Repayments of debt	993,114
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	20,680
• Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	(92,008)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (720,333)

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues and Other Sources:				
Taxes	$ 10,404,513	$ 10,404,513	$ 10,404,513	$ -
Excise	971,400	971,400	988,759	17,359
Penalties, interest and other taxes	69,000	69,000	134,892	65,892
Charges for services	10,000	10,000	10,135	135
Intergovernmental	8,113,200	8,113,200	8,142,436	29,236
Licenses and permits	174,000	174,000	203,552	29,552
Fines and forfeits	33,000	33,000	43,438	10,438
Investment income	39,000	39,000	164,017	125,017
Miscellaneous	155,653	155,653	179,663	24,010
Transfers in	793,970	803,770	852,349	48,579
Other sources	866,371	866,371	866,371	-
Total Revenues and Other Sources	21,630,107	21,639,907	21,990,125	350,218
Expenditures and Other Uses:				
General government	1,946,501	1,946,501	1,838,122	108,379
Public safety	2,091,785	2,101,585	2,044,793	56,792
Education	10,966,762	10,966,762	10,805,151	161,611
Public works	852,741	852,741	882,327	(29,586)
Health and human services	166,255	166,255	157,802	8,453
Culture and recreation	216,424	216,424	213,470	2,954
Debt service	1,984,009	1,984,009	1,976,511	7,498
Intergovernmental	434,839	434,839	321,850	112,989
Employee benefits	2,638,615	2,638,615	2,594,703	43,912
Transfers out	175,915	175,915	175,915	-
Other uses	156,261	156,261	156,261	-
Total Expenditures and Other Uses	21,630,107	21,639,907	21,166,905	473,002
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ -	$ 823,220	$ 823,220

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities Enterprise Funds	
	Water/Sewer Fund	Transfer Station Fund
ASSETS		
Current:		
Cash and short-term investments	$ 1,192,182	$ 91,572
User fees, net of allowance for uncollectibles	144,326	-
Intergovernmental receivables	164,532	-
Total current assets	1,501,040	91,572
Noncurrent:		
Capital assets:		
Land and construction in progress	7,810,673	11,738
Other capital assets, net of accumulated depreciation	3,568,046	-
Total noncurrent assets	11,378,719	11,738
TOTAL ASSETS	12,879,759	103,310
LIABILITIES		
Current:		
Warrants payable	28,026	19,885
Accrued liabilities	78,904	-
Bonds payable	343,892	-
Total current liabilities	450,822	19,885
Noncurrent:		
Bonds payable, net of current portion	6,904,160	-
Total noncurrent liabilities	6,904,160	-
TOTAL LIABILITIES	7,354,982	19,885
NET ASSETS		
Invested in capital assets, net of related debt	4,312,076	11,738
Unrestricted	1,212,701	71,687
TOTAL NET ASSETS	$ 5,524,777	$ 83,425

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds	
	Water/Sewer Fund	Transfer Station Fund
Operating Revenues:		
Charges for services	$ 889,716	$ 261,301
Employee and employer contributions		
Other	55,078	3,660
Total Operating Revenues	944,794	264,961
Operating Expenses:		
Operating expenses	530,446	256,875
Depreciation	140,409	-
Total Operating Expenses	670,855	256,875
Operating Income (Loss)	273,939	8,086
Nonoperating Revenues (Expenses):		
Interest expense	(216,199)	-
Total Nonoperating Revenues (Expenses), Net	(216,199)	-
Income (Loss) Before Transfers	57,740	8,086
Transfers:		
Transfers in	355,384	-
Change in Net Assets	413,124	8,086
Net Assets at Beginning of Year, as restated	5,111,653	75,339
Net Assets at End of Year	$ 5,524,777	$ 83,425

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Funds	
	Water/Sewer Fund	Transfer Station Fund
Cash Flows From Operating Activities:		
Receipts from customers and users	$ 918,597	$ 264,961
Payments to vendors and employees	(545,043)	(236,990)
Net Cash Provided By (Used For) Operating Activities	373,554	27,971
Cash Flows From Noncapital Financing Activities:		
Transfers in	355,384	-
Intergovernmental receipt	1,956,889	-
Net Cash (Used For) Noncapital Financing Activities	2,312,273	-
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of bonds and notes	300,000	-
Acquisition and construction of capital assets	(159,654)	-
Principal payments on bonds and notes	(1,325,717)	-
Interest expense	(216,199)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,401,570)	-
Net Change in Cash and Short-Term Investments	1,284,257	27,971
Cash and Short-Term Investments, Beginning of Year	(92,075)	63,601
Cash and Short-Term Investments, End of Year	$ 1,192,182	$ 91,572
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating income (loss)	$ 273,939	$ 8,086
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	140,409	-
Changes in assets and liabilities:		
User fees	(26,197)	-
Warrants and accounts payable	27,984	19,885
Accrued liabilities	(42,581)	-
Net Cash Provided By (Used For) Operating Activities	$ 373,554	$ 27,971

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	$ 53,893	$ 631,938
Total Assets	53,893	631,938
LIABILITIES AND NET ASSETS		
Accounts payable	-	19,255
Other liabilities	-	612,683
Total Liabilities	-	631,938
NET ASSETS		
Total net assets held in trust for pension benefits pension benefits and other purposes	$ 53,893	$ -

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Funds
Additions:	
Investment Income (Loss):	
Interest income	$ 2,880
Net investment income (loss)	2,880
Total additions	2,880
Deductions:	
Education	2,150
Total deductions	2,150
Net increase (decrease)	730
Net assets:	
Beginning of year	53,163
End of year	$ 53,893

See notes to financial statements.

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Douglas (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. *Reporting Entity*

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2007, it was determined that no entities met the required GASB-39 criteria of component units.

B. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The *Stabilization Fund*.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The government reports the following major proprietary funds:

- Water/sewer operations
- Transfer station operations

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. *Cash and Short-Term Investments*

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

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

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. *Investments*

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

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. *Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2007 tax levy reflected an excess capacity of $ 3,460.

G. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements	20
Infrastructure	30 - 50
Vehicles	5
Office equipment	5
Computer equipment	5

H. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. *Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

J. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. *Use of Estimates*

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

2. Stewardship, Compliance and Accountability

A. *Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

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

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

B. *Budgetary Basis*

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

C. *Budget/GAAP Reconciliation*

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

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

General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Revenues/Expenditures (GAAP basis)	$ 20,982,407	$ 21,138,889
Other financing sources/uses (GAAP basis)	987,349	531,299
Subtotal (GAAP Basis)	21,969,756	21,670,188
Adjust tax revenue to accrual basis	166,651	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(326,709)
To book current year appropriation carryforwards	-	631,338
To record raising of prior year appropriation deficits	-	156,261
To record payroll timing differences	-	(86,520)
To record use of free cash	671,371	-
To record use of overlay surplus (fund balance)	60,000	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(877,653)	(877,653)
Budgetary basis	$ 21,990,125	$ 21,166,905

D. *Excess of Expenditures Over Appropriations*

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

Snow and Ice	$ (75,600)

E. *Deficit Fund Equity*

The following funds had deficits as of June 30, 2007:

Kindergarten Transition	$ (3,372)
Fire Safe	(1,118)
GHSB	(341)
SETB Training	(2,924)
Community Bulletin	(500)
Summerlyn EST	(4)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

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

As of June 30, 2007, $ 3,652 of the Town's bank balance of $ 9,220,319 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Taxes Receivable

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 a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2007 consist of the following (in thousands):

Real Estate		
2007	$ 490	
2006	126	
2005	9	
2004	1	
Prior	8	
		634
Personal Property		
2007	1	
2006	1	
2005	1	
2004	1	
Prior	6	
		10
Tax Liens		109
Total		$ 753

5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	Governmental
Property taxes	$ 150
Excises	111
Other	10

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007.

7. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 31,760	$ 22	$ -	$ 31,782
Machinery, equipment, and furnishings	5,052	103	-	5,155
Infrastructure	1,362	-	-	1,362
Total capital assets, being depreciated	38,174	125	-	38,299
Less accumulated depreciation for:				
Buildings and improvements	(5,026)	(841)	-	(5,867)
Machinery, equipment, and furnishings	(2,760)	(619)	-	(3,379)
Infrastructure	(239)	(27)	-	(266)
Total accumulated depreciation	(8,025)	(1,487)	-	(9,512)
Total capital assets, being depreciated, net	30,149	(1,362)	-	28,787
Capital assets, not being depreciated:				
Land	3,018	-	-	3,018
Total capital assets, not being depreciated	3,018	-	-	3,018
Governmental activities capital assets, net	$ 33,167	$ (1,362)	$ -	$ 31,805

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 482	$ -	$ -	$ 482
Machinery, equipment, and furnishings	5	-	-	5
Infrastructure	5,355	-	-	5,355
Total capital assets, being depreciated	5,842	-	-	5,842
Less accumulated depreciation for:				
Buildings and improvements	(404)	(12)	-	(416)
Machinery, equipment, and furnishings	(5)	-	-	(5)
Infrastructure	(1,725)	(128)	-	(1,853)
Total accumulated depreciation	(2,134)	(140)	-	(2,274)
Total capital assets, being depreciated, net	3,708	(140)	-	3,568
Capital assets, not being depreciated:				
Land	401		-	401
Construction in progress	7,262	159	-	7,421
Total capital assets, not being depreciated	7,663	159	-	7,822
Business-type activities capital assets, net	$ 11,371	$ 19	$ -	$ 11,390

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	$ 62
Public safety	162
Education	1,182
Public works	71
Culture and recreation	10
Total depreciation expense - governmental activities	$ 1,487
Business-Type Activities:	
Water/sewer	$ 140
Transfer station	-
Total depreciation expense - business-type activities	$ 140

8. Warrants Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law.

9. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2007 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Land acquisition	$ 767	$ -	$ (767)	$ -
Total	$ 767	$ -	$ (767)	$ -

11. Capital Lease Obligations

The Town is the lessee of certain equipment under capital leases expiring in various years through 2009. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2007:

2008	$ 47,874
2009	5,894
Total minimum lease payments	53,768
Less amount representing interest	(2,862)
Present Value of Minimum Lease Payments	$ 50,906

12. Long-Term Debt

A. *General Obligation Bonds*

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

Governmental Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
Land	07/15/18	3.91%	$ 180,000
Land	04/01/11	3.97%	400,000
Land	06/01/10	4.89%	180,000
Land	12/15/21	4.36%	767,200
Fire/EMS	12/15/12	4.85%	302,080
Fire/EMS	06/01/10	4.92%	30,000
Police	07/17/12	5.63%	172,500
Post Office	12/15/14	5.25%	188,545
Building remodel	07/15/13	3.73%	385,000
Ambulance	12/15/11	3.27%	135,000
High school construction	07/15/23	4.16%	3,615,000
Cafetorium	06/30/11	3.93%	90,000
High school construction	06/01/22	4.05%	8,190,000
ECC	04/15/08	4.55%	96,000
Total Governmental Activities:			$ 14,731,325

Business-Type Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
Sewer	06/30/11	3.98%	$ 120,000
Sewer	06/30/11	3.98%	40,000
Water	08/01/24	4.25%	195,448
Well	12/05/14	5.20%	448,220
Water	07/18/34	5.13%	91,957
Water tank	10/15/17	4.95%	381,921
Sewer plant	02/01/25	2.00%	5,670,506
Sewer plant	07/15/24	2.00%	300,000
Total Business-Type Activities:			$ 7,248,052

B. *Future Debt Service*

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

Governmental	Principal	Interest	Total
2008	$ 1,091,290	$ 623,647	$ 1,714,937
2009	1,032,811	562,183	1,594,994
2010	1,043,892	521,625	1,565,517
2011	1,005,030	480,371	1,485,401
2012	916,228	440,909	1,357,137
2013 - 2017	4,302,074	1,672,967	5,975,041
2018 - 2022	4,805,000	743,202	5,548,202
2023 - 2025	535,000	24,694	559,694
Total	$ 14,731,325	$ 5,069,598	$ 19,800,923

Business-Type	Principal	Interest	Total
2008	$ 343,892	$ 219,783	$ 563,675
2009	369,761	215,536	585,297
2010	379,906	201,766	581,672
2011	392,443	187,547	579,990
2012	362,818	173,424	536,242
2013 - 2017	1,994,197	633,050	2,627,247
2018 - 2022	1,951,250	232,669	2,183,919
2023 - 2025	1,340,405	42,051	1,382,456
Thereafter	113,370	22,657	136,027
Total	$ 7,248,042	$ 1,928,483	$ 9,176,525

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
Governmental Activities						
Bonds payable	$ 14,822	$ 902	$ (993)	$ 14,731	$ (1,091)	$ 13,640
Other:						
Landfill closure	153	30	(12)	171	(12)	159
Accrued employee benefits	-	108	-	108	(5)	103
Capital lease	94	-	(43)	51	(45)	6
Totals	$ 15,069	$ 1,040	$ (1,048)	$ 15,061	$ (1,153)	$ 13,908

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
Business-Type Activities						
Bonds payable	$ 8,274	$ 5,971	$ (6,997)	$ 7,248	$ (344)	$ 6,904
Totals	$ 8,274	$ 5,971	$ (6,997)	$ 7,248	$ (344)	$ 6,904

13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The Town reported $ 170,800 as landfill closure and postclosure care liability at June 30, 2007. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

14. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

15. Reserves and Designations of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use. Fund "designations," which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves and designations are reported at June 30, 2007:

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

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

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Other Purposes - Includes reserves for debt premium, petty cash, Massachusetts Water Pollution Abatement Trust, and South Street.

16. General Fund Undesignated Fund Balance

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

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

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

GAAP basis balance	$ 1,094,378
Snow and ice deficit	75,600
Statutory (UMAS) Balance	$ 1,169,978

17. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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

18. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2007 was not available.

19. Pension Plan

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

A. *Plan Description*

The Town contributes to the Worcester Regional Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and the State legislature has the authority to grant cost-of-living increases. The System issues a publicly available financial report which can be obtained through the Worcester Regional Retirement System at 2 Main Street, Court House Room 3, Worcester, Massachusetts 01608.

B. *Funding Policy*

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2007, 2006 and 2005 were $ 490,385, $ 448,808, and $ 370,477, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to $ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of $ 30,000.

In fiscal year 2007, the Commonwealth of Massachusetts contributed $ 877,653 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

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

21. Beginning Fund Balance Reclassification and Restatement

The Town's major governmental funds for fiscal year 2007, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	General Fund	Nonmajor Funds
As previously reported	$ 2,308,634	$ 1,765,589
To reclassify item previously recorded in general fund to special revenue funds	(12,756)	12,756
To record prior year summer pay included in encumbrances	(74,401)	-
To reclassify various accounts between special revenue funds and agency	-	29,432
Total	$ 2,221,477	$ 1,807,777

22. Beginning Net Assets Restatement

The beginning (July 1, 2006) net assets balances of the Town have been restated as follows:

Government-Wide Financial Statements:

		Business-Type Activities Enterprise Funds		
	Governmental Activities	Water Fund	Sewer Fund	Total
As previously reported	$ 39,984,948	$ 3,016,972	$ 63,601	$ 43,065,521
To adjust due from MWPAT for original loan project	-	447,229	-	447,229
To correct allocation of bonds payable and to adjust to actual beginning balance	401,151	(438,985)	-	(37,834)
To reclassify transfer station fixed assets previously reported as governmental	(11,738)	-	11,738	-
To record prior year summer pay included in encumbrances	(74,401)	-	-	(74,401)
To reclassify various accounts between special revenue funds and agency	29,432	-	-	29,432
To record prior year infrastructure capital assets	1,123,150	2,086,437	-	3,209,587
To correct MSBA receivable to actual	(9,028,005)	-	-	(9,028,005)
As restated	$ 32,424,537	$ 5,111,653	$ 75,339	$ 37,611,529