TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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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, 2008, 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, 2008, 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 December 15, 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
December 15, 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, 2008.

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 $ 38,901,968 (i.e., net assets), a change of $ (642,354) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of $ 4,837,043, a change of $ (1,402,651) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $ 755,720, a change of $ (338,658) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was $ 20,544,195, a change of $ (1,435,182) 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 14,533	$ 15,798	$ 1,464	$ 1,593	$ 15,997	$ 17,391
Capital assets	33,466	34,037	11,334	11,390	44,800	45,427
Total assets	47,999	49,835	12,798	12,983	60,797	62,818
Long-term liabilities outstanding	12,803	13,908	6,535	6,904	19,338	20,812
Other liabilities	2,071	1,991	486	471	2,557	2,462
Total liabilities	14,874	15,899	7,021	7,375	21,895	23,274
Net assets:						
Invested in capital assets, net	20,224	19,689	4,444	4,324	24,668	24,013
Restricted	1,253	1,498	-	-	1,253	1,498
Unrestricted	11,648	12,749	1,333	1,284	12,981	14,033
Total net assets	$ 33,125	$ 33,936	$ 5,777	$ 5,608	$ 38,902	$ 39,544

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 1,358	$ 1,741	$ 1,097	$ 1,151	$ 2,455	$ 2,892
Operating grants and contributions	9,719	9,378	-	-	9,719	9,378
Capital grants and contributions	262	116	-	-	262	116
General revenues:						
Property taxes	10,314	9,988	-	-	10,314	9,988
Excises	1,060	890	-	-	1,060	890
Penalties and interest on taxes	84	134	-	-	84	134
Grants and contributions not restricted to specific programs	1,166	1,157	-	-	1,166	1,157
Investment income	217	270	-	-	217	270
Other	198	192	59	59	257	251
Total revenues	24,378	23,866	1,156	1,210	25,534	25,076
Expenses:						
General government	1,866	1,751	-	-	1,866	1,751
Public safety	2,342	2,122	-	-	2,342	2,122
Education	15,395	15,365	-	-	15,395	15,365
Public works	898	1,060	-	-	898	1,060
Human services	197	165	-	-	197	165
Culture and recreation	255	244	-	-	255	244
Employee benefits	2,976	2,596	-	-	2,976	2,596
Intergovernmental	317	322	-	-	317	322
Interest on long-term debt	619	607	-	-	619	607
Miscellaneous	21	-	-	-	21	-
Water	-	-	1,031	887	1,031	887
Sewer	-	-	259	257	259	257
Total expenses	24,886	24,232	1,290	1,144	26,176	25,376
Change in net assets before transfers	(508)	(366)	(134)	66	(642)	(300)
Transfers in (out)	(303)	(355)	303	355	-	-
Change in net assets	(811)	(721)	169	421	(642)	(300)
Net assets - beginning of year (as restated)	33,936	34,657	5,608	5,187	39,544	39,844
Net assets - end of year	$ 33,125	$ 33,936	$ 5,777	$ 5,608	$ 38,902	$ 39,544

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 $ 38,901,968, a change of $ (642,354) from the prior year.

The largest portion of net assets $ 24,667,396 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 $ 1,253,444 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets $ 12,981,128 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 $ (810,763). Key elements of this change are as follows:

General fund operating results	$ (903,692)
Stabilization fund deficit	(233,637)
Nonmajor funds surplus - accrual basis	251,833
Excess depreciation over principal maturities, a budgeted expense	(397,785)
Other GAAP accruals	472,518
Total	$ (810,763)

Business-type activities. Business-type activities for the year resulted in a change in net assets of $ 168,409. Key elements of this change are as follows:

Water/sewer operations	$ 156,057
Transfer station operations	12,352
Total	$ 168,409

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 $ 4,837,043, a change of $ (1,402,651) in comparison with the prior year. Key elements of this change are as follows:

General fund operating results	$ (903,692)
Stabilization fund deficit	(233,637)
Nonmajor funds surplus	(265,322)
Total	$ (1,402,651)

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was $ 755,720, while total fund balance was $ 1,617,353. 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 3 percent of total general fund expenditures, while total fund balance represents 7 percent of that same amount.

The fund balance of the general fund changed by $ (903,692) during the current fiscal year. Key factors in this change are as follows:

Excess state and local revenues over budget	$ 222,523
Budgetary appropriation surplus	171,266
Shortfall tax collections over budget	(44,157)
Excess of prior year encumbrances spent in the current year over current year encumbered appropriations to be spent in the subsequent year	(308,365)
Raising of prior year appropriation deficits	75,600
Use of free cash	(898,761)
Use of reserved debt	(63,350)
Other timing differences	(58,448)
Total	$ (903,692)

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 $ 1,333,463, a change of $ 49,075 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 $ 238,461. Major reasons for these amendments include:

- $ 5,000 increase in General government appropriations.
- $ 233,461 increase in Public Works appropriations.

These increases were funded by the use of free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to $ 44,799,812 (net of accumulated depreciation), a change of $ (627,281) 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 infrastructure of $ 704,187.

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 $ 20,544,195 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, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	$ 5,563,393	$ 1,299,599	$ 6,862,992
Receivables, net of allowance for uncollectibles:			
Property taxes	504,069	-	504,069
Excises	114,635	-	114,635
User fees	-	150,749	150,749
Departmental and other	107,916	-	107,916
Intergovernmental	803,881	13,680	817,561
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	215,750	-	215,750
Intergovernmental	7,223,077	-	7,223,077
Capital assets:			
Land and construction in progress	5,281,872	401,122	5,682,994
Other capital assets, net of accumulated depreciation	28,184,312	10,932,506	39,116,818
TOTAL ASSETS	47,998,905	12,797,656	60,796,561
LIABILITIES			
Current:			
Warrants payable	571,531	41,962	613,493
Accrued liabilities	339,026	74,923	413,949
Other current liabilities	107,349	-	107,349
Current portion of long-term liabilities:			
Bonds payable	1,032,811	369,761	1,402,572
Landfill	12,200	-	12,200
Compensated absence	2,571	-	2,571
Capital lease	5,595	-	5,595
Noncurrent:			
Bonds payable, net of current portion	12,607,224	6,534,399	19,141,623
Landfill, net of current portion	146,400	-	146,400
Compensated absence, net of current portion	48,841	-	48,841
TOTAL LIABILITIES	14,873,548	7,021,045	21,894,593
NET ASSETS			
Invested in capital assets, net of related debt	20,224,248	4,443,148	24,667,396
Restricted for:			
Grants and other statutory restrictions	1,129,438	-	1,129,438
Permanent funds:			
Nonexpendable	53,728	-	53,728
Expendable	70,278	-	70,278
Unrestricted	11,647,665	1,333,463	12,981,128
TOTAL NET ASSETS	$ 33,125,357	$ 5,776,611	$ 38,901,968

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Assets: Total
Governmental Activities:							
General government	$ 1,866,059	$ 152,195	$ 41,354	$ -	$ (1,672,510)	$ -	$ (1,672,510)
Public safety	2,342,453	339,724	34,007	-	(1,968,722)	-	(1,968,722)
Education	15,394,694	583,832	9,596,878	-	(5,213,984)	-	(5,213,984)
Public works	898,529	267,782	-	262,148	(368,599)	-	(368,599)
Health and human services	196,625	14,785	28,800	-	(153,040)	-	(153,040)
Culture and recreation	254,598	-	17,961	-	(236,637)	-	(236,637)
Employee benefits	2,976,199	-	-	-	(2,976,199)	-	(2,976,199)
Interest	618,759	-	-	-	(618,759)	-	(618,759)
Intergovernmental	316,559	-	-	-	(316,559)	-	(316,559)
Miscellaneous	21,589	-	-	-	(21,589)	-	(21,589)
Total Governmental Activities	24,886,064	1,358,318	9,719,000	262,148	(13,546,598)	-	(13,546,598)
Business-Type Activities:							
Water/Sewer services	1,030,406	828,902	-	-	-	(201,504)	(201,504)
Transfer station services	259,405	268,119	-	-	-	8,714	8,714
Total Business-Type Activities	1,289,811	1,097,021	-	-	-	(192,790)	(192,790)
Total	$ 26,175,875	$ 2,455,339	$ 9,719,000	$ 262,148	(13,546,598)	(192,790)	(13,739,388)
General Revenues and Transfers:							
Property taxes					10,314,059	-	10,314,059
Excises					1,059,770	-	1,059,770
Penalties, interest and other taxes					83,780	-	83,780
Grants and contributions not restricted to specific programs					1,166,349	-	1,166,349
Investment income					216,760	-	216,760
Miscellaneous					197,684	58,632	256,316
Transfers, net					(302,567)	302,567	-
Total general revenues and transfers					12,735,835	361,199	13,097,034
Change in Net Assets					(810,763)	168,409	(642,354)
Net Assets:							
Beginning of year, as restated					33,936,120	5,608,202	39,544,322
End of year					$ 33,125,357	$ 5,776,611	$ 38,901,968

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	$ 2,248,342	$ 1,577,918	$ 1,737,134	$ 5,563,394
Receivables:				
Property taxes	875,131	-	-	875,131
Excises	181,588	-	-	181,588
Departmental and other	155	-	119,733	119,888
Intergovernmental	18,275	-	269,671	287,946
TOTAL ASSETS	$ 3,323,491	$ 1,577,918	$ 2,126,538	$ 7,027,947
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	$ 476,171	$ -	$ 95,361	$ 571,532
Accrued liabilities	219,369	-	-	219,369
Deferred revenues	903,249	-	389,405	1,292,654
Other liabilities	107,349	-	-	107,349
TOTAL LIABILITIES	1,706,138	-	484,766	2,190,904
Fund Balances:				
Reserved for:				
Encumbrances	264,527	-	-	264,527
Expenditures	597,106	-	-	597,106
Perpetual (nonexpendable) permanent funds	-	-	53,728	53,728
Unreserved:				
General fund	755,720	-	-	755,720
Special revenue funds	-	1,577,918	1,155,831	2,733,749
Capital project funds	-	-	361,935	361,935
Permanent funds	-	-	70,278	70,278
TOTAL FUND BALANCES	1,617,353	1,577,918	1,641,772	4,837,043
TOTAL LIABILITIES AND FUND BALANCES	$ 3,323,491	$ 1,577,918	$ 2,126,538	$ 7,027,947

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, 2008

Total governmental fund balances	$ 4,837,043
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	33,466,184
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,058,418
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(119,657)
• MSBA receivable not reported in governmental funds	7,739,011
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(13,855,642)
Net assets of governmental activities	$ 33,125,357

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, 2008

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 10,209,689	$ -	$ -	$ 10,209,689
Excises	983,143	-	-	983,143
Penalties, interest and other taxes	83,780	-	-	83,780
Charges for services	1,651	-	864,455	866,106
Intergovernmental	9,938,151	-	1,642,979	11,581,130
Licenses and permits	174,683	-	-	174,683
Fines and forfeitures	35,697	-	-	35,697
Investment income	145,946	66,060	4,753	216,759
Miscellaneous	176,551	-	72,059	248,610
Total Revenues	21,749,291	66,060	2,584,246	24,399,597
Expenditures:				
Current:				
General government	1,748,322	-	107,751	1,856,073
Public safety	2,246,663	-	49,548	2,296,211
Education	12,391,395	-	1,826,411	14,217,806
Public works	1,136,403	-	517,155	1,653,558
Health and human services	173,951	-	22,673	196,624
Culture and recreation	230,311	-	14,184	244,495
Employee benefits	2,976,199	-	-	2,976,199
Miscellaneous	-	-	21,589	21,589
Debt service	1,720,567	-	-	1,720,567
Intergovernmental	316,559	-	-	316,559
Total Expenditures	22,940,370	-	2,559,311	25,499,681
Excess (deficiency) of revenues over expenditures	(1,191,079)	66,060	24,935	(1,100,084)
Other Financing Sources (Uses):				
Transfers in	589,954			589,954
Transfers out	(302,567)	(299,697)	(290,257)	(892,521)
Total Other Financing Sources (Uses)	287,387	(299,697)	(290,257)	(302,567)
Change in fund balance	(903,692)	(233,637)	(265,322)	(1,402,651)
Fund Equity, at Beginning of Year	2,521,045	1,811,555	1,907,094	6,239,694
Fund Equity, at End of Year	$ 1,617,353	$ 1,577,918	$ 1,641,772	$ 4,837,043

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, 2008

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ (1,402,651)
• 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	918,623
Depreciation	(1,489,075)
• 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.	(53,928)
• 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:	
Repayments of debt	1,091,290
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	10,518
• 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.	114,460
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (810,763)

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, 2008

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues and Other Sources:				
Taxes	$ 10,253,846	$ 10,253,846	$ 10,253,846	$ -
Excise	971,400	971,400	983,143	11,743
Penalties, interest and other taxes	69,000	69,000	83,780	14,780
Charges for services	10,000	10,000	1,651	(8,349)
Intergovernmental	9,005,440	9,005,440	9,019,196	13,756
Licenses and permits	167,000	167,000	174,683	7,683
Fines and forfeits	33,000	33,000	35,697	2,697
Investment income	72,600	72,600	145,946	73,346
Miscellaneous	69,684	69,684	176,551	106,867
Transfers in	589,954	589,954	589,954	-
Use of free cash	660,300	898,761	898,761	-
Other sources	63,350	63,350	63,350	-
Total Revenues and Other Sources	21,965,574	22,204,035	22,426,558	222,523
Expenditures and Other Uses:				
General government	1,523,442	1,528,442	1,471,816	56,626
Public safety	2,195,509	2,195,509	2,170,434	25,075
Education	11,483,780	11,483,780	11,479,003	4,777
Public works	924,302	1,157,763	1,137,006	20,757
Health and human services	188,323	188,323	174,008	14,315
Culture and recreation	215,408	215,408	209,010	6,398
Debt service	2,032,677	2,032,677	2,023,134	9,543
Intergovernmental	316,962	316,962	316,559	403
Employee benefits	3,009,571	3,009,571	2,976,199	33,372
Other uses	75,600	75,600	75,600	-
Total Expenditures and Other Uses	21,965,574	22,204,035	22,032,769	171,266
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ -	$ -	$ 393,789	$ 393,789

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
ASSETS			
Current:			
Cash and short-term investments	$ 1,195,458	$ 104,141	$ 1,299,599
User fees, net of allowance for uncollectibles	150,749	-	150,749
Intergovernmental receivables	13,680	-	13,680
Total current assets	1,359,887	104,141	1,464,028
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net of accumulated depreciation	10,932,506	-	10,932,506
Total noncurrent assets	11,321,890	11,738	11,333,628
TOTAL ASSETS	12,681,777	115,879	12,797,656
LIABILITIES			
Current:			
Warrants payable	21,860	20,102	41,962
Accrued liabilities	74,923	-	74,923
Bonds payable	369,761	-	369,761
Total current liabilities	466,544	20,102	486,646
Noncurrent:			
Bonds payable, net of current portion	6,534,399	-	6,534,399
Total noncurrent liabilities	6,534,399	-	6,534,399
TOTAL LIABILITIES	7,000,943	20,102	7,021,045
NET ASSETS			
Invested in capital assets, net of related debt	4,431,410	11,738	4,443,148
Unrestricted	1,249,424	84,039	1,333,463
TOTAL NET ASSETS	$ 5,680,834	$ 95,777	$ 5,776,611

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, 2008

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	$ 828,902	$ 268,119	$ 1,097,021
Other	54,994	3,638	58,632
Total Operating Revenues	883,896	271,757	1,155,653
Operating Expenses:			
Operating expenses	579,750	259,405	839,155
Depreciation	234,952	-	234,952
Total Operating Expenses	814,702	259,405	1,074,107
Operating Income (Loss)	69,194	12,352	81,546
Nonoperating Revenues (Expenses):			
Interest expense	(215,704)	-	(215,704)
Total Nonoperating Revenues (Expenses), Net	(215,704)	-	(215,704)
Income (Loss) Before Transfers	(146,510)	12,352	(134,158)
Transfers:			
Transfers in	302,567	-	302,567
Change in Net Assets	156,057	12,352	168,409
Net Assets at Beginning of Year	5,524,777	83,425	5,608,202
Net Assets at End of Year	$ 5,680,834	$ 95,777	$ 5,776,611

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Cash Flows From Operating Activities :			
Receipts from customers and users	$ 877,473	$ 271,757	$ 1,149,230
Payments to vendors and employees	(589,897)	(259,188)	(849,085)
Net Cash Provided By (Used For) Operating Activities	287,576	12,569	300,145
Cash Flows From Noncapital Financing Activities :			
Transfers in	302,567	-	302,567
Intergovernmental receipt	150,852	-	150,852
Net Cash (Used For) Noncapital Financing Activities	453,419	-	453,419
Cash Flows From Capital and Related Financing Activities :			
Acquisition and construction of capital assets	(178,123)	-	(178,123)
Principal payments on bonds and notes	(343,892)	-	(343,892)
Interest expense	(215,704)	-	(215,704)
Net Cash (Used For) Capital and Related Financing Activities	(737,719)	-	(737,719)
Net Change in Cash and Short-Term Investments	3,276	12,569	15,845
Cash and Short-Term Investments, Beginning of Year	1,192,182	91,572	1,283,754
Cash and Short-Term Investments, End of Year	$ 1,195,458	$ 104,141	$ 1,299,599
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Operating income (loss)	$ 69,194	$ 12,352	$ 81,546
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	234,952	-	234,952
Changes in assets and liabilities:			
User fees	(6,423)	-	(6,423)
Warrants and accounts payable	(6,166)	217	(5,949)
Accrued liabilities	(3,981)	-	(3,981)
Net Cash Provided By (Used For) Operating Activities	$ 287,576	$ 12,569	$ 300,145

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and short-term investments	$ 51,316	$ 460,487
Accounts receivable	-	11,035
Total Assets	51,316	471,522
LIABILITIES AND NET ASSETS		
Accounts payable	-	6,774
Other liabilities	-	464,748
Total Liabilities	-	471,522
NET ASSETS		
Total net assets held in trust for pension benefits pension benefits and other purposes	$ 51,316	$ -

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Funds
Additions:	
Investment Income (Loss):	
Interest income	$ 2,373
Net investment income (loss)	2,373
Total additions	2,373
Deductions:	
Education	4,950
Total deductions	4,950
Net increase (decrease)	(2,577)
Net assets:	
Beginning of year	53,893
End of year	$ 51,316

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 2008, 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. <u>Cash and Short-Term Investments</u>

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. *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 2008 tax levy reflected an excess capacity of $ 5,843.

F. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets 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 five 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

G. *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.

H. 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.

I. 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.

J. 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 mended 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)	$ 21,749,291	$ 22,940,370
Other financing sources/uses (GAAP basis)	589,954	302,567
Subtotal (GAAP Basis)	22,339,245	23,242,937
Adjust tax revenue to accrual basis	44,157	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(792,261)
To book current year appropriation carryforwards	-	264,527

(continued)

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General Fund	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
To record raising of prior year appropriation deficits	-	75,600
To record payroll timing differences	-	160,921
To record use of free cash	898,761	-
To record use of overlay surplus (fund balance)	63,350	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(918,955)	(918,955)
Budgetary basis	$ 22,426,558	$ 22,032,769

D. *Deficit Fund Equity*

The following funds had deficits as of June 30, 2008:

Circuit Breaker	$ (16,554)
Preschool	(15,760)
Fire Safe	(900)
GHSB	(880)
GHSB 08	(1,760)
Chapter 90	(255,000)

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, 2008, $ 4,156 of the Town's bank balance of $ 7,791,320 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, 2008 consist of the following (in thousands):

Real Estate		
2008	$ 478	
2007	142	
2006	3	
Prior	1	
		$ 624
Personal Property		
2008	2	
2007	1	
2006	1	
2005	1	
Prior	6	
		11
Tax Liens		240
Total		$ 875

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	$ 155
Excises	67
Other	12

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2008.

7. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 31,782	$ -	$ -	$ 31,782
Machinery, equipment, and furnishings	5,155	183	-	5,338
Infrastructure	1,362	704	-	2,066
Total capital assets, being depreciated	38,299	887	-	39,186
Less accumulated depreciation for:				
Buildings and improvements	(5,867)	(842)	-	(6,709)
Machinery, equipment, and furnishings	(3,379)	(618)	-	(3,997)
Infrastructure	(266)	(30)	-	(296)
Total accumulated depreciation	(9,512)	(1,490)	-	(11,002)
Total capital assets, being depreciated, net	28,787	(603)	-	28,184
Capital assets, not being depreciated:				
Land	5,250	32	-	5,282
Total capital assets, not being depreciated	5,250	32	-	5,282
Governmental activities capital assets, net	$ 34,037	$(571)	$ -	$ 33,466

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	$ 482	$ 7,563	$ -	$ 8,045
Machinery, equipment, and furnishings	5	36	-	41
Infrastructure	5,355	-	-	5,355
Total capital assets, being depreciated	5,842	7,599	-	13,441
Less accumulated depreciation for:				
Buildings and improvements	(416)	(106)	-	(522)
Machinery, equipment, and furnishings	(5)	-	-	(5)
Infrastructure	(1,853)	(128)	-	(1,981)
Total accumulated depreciation	(2,274)	(234)	-	(2,508)
Total capital assets, being depreciated, net	3,568	7,365	-	10,933
Capital assets, not being depreciated:				
Land	401	-	-	401
Construction in progress	7,421	-	(7,421)	-
Total capital assets, not being depreciated	7,822	-	(7,421)	401
Business-type activities capital assets, net	$ 11,390	$ 7,365	$ (7,421)	$ 11,334

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

Governmental Activities:	
General government	$ 65
Public safety	162
Education	1,183
Public works	70
Culture and recreation	10
Total depreciation expense - governmental activities	$ 1,490
Business-Type Activities:	
Water/sewer	$ 234
Total depreciation expense - business-type activities	$ 234

8. Warrants Payable

Warrants payable represent 2008 expenditures paid by July 15, 2008 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, 2008 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. 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, 2008:

2009	$ 5,894
Total minimum lease payments	5,894
Less amount representing interest	(299)
Present Value of Minimum Lease Payments	$ 5,595

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and 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, 2008
Land	07/15/18	3.91%	$ 165,000
Land	04/01/11	3.97%	300,000
Land	06/01/10	4.89%	115,000
Land	12/15/21	4.36%	712,000
Fire/EMS	12/15/12	4.85%	267,311
Fire/EMS	06/01/10	4.92%	20,000
Police	07/17/12	5.63%	143,750
Post Office	12/15/14	5.25%	168,974
Building remodel	07/15/13	3.73%	330,000
Ambulance	12/15/11	3.27%	108,000
High school construction	07/15/23	4.16%	3,455,000
Cafetorium	06/30/11	3.93%	65,000
High school construction	06/01/22	4.05%	7,790,000
Total Governmental Activities:			$ 13,640,035

Business-Type Activities:	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2008
Sewer	06/30/11	3.98%	$ 90,000
Sewer	06/30/11	3.98%	30,000
Water	08/01/24	4.25%	191,447
Well	12/05/14	5.20%	401,676
Water	07/18/34	5.13%	90,413
Water tank	10/15/17	4.95%	362,690
Sewer plant	02/01/25	2.00%	5,437,934
Sewer plant	07/15/24	2.00%	300,000
Total Business-Type Activities:			$ 6,904,160

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

Governmental	Principal	Interest	Total
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	912,490	404,610	1,317,100
2014 - 2018	4,289,584	1,497,952	5,787,536
2019 - 2023	4,170,000	532,057	4,702,057
2024 - 2026	270,000	6,244	276,244
Total	$ 13,640,035	$ 4,445,951	$ 18,085,986

Business-Type	Principal	Interest	Total
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	373,624	161,555	535,179
2014 - 2018	2,022,711	545,137	2,567,848
2019 - 2023	1,973,818	174,016	2,147,834
2024 - 2026	929,104	32,232	961,336
Thereafter	99,975	17,487	117,462
Total	$ 6,904,160	$ 1,708,700	$ 8,612,860

C. *Changes in General Long-Term Liabilities*

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/07	Additions	Reductions	Total Balance 6/30/08	Less Current Portion	Equals Long-Term Portion 6/30/08
Governmental Activities						
Bonds payable	$ 14,731	$ -	$ (1,091)	$ 13,640	$ (1,033)	$ 12,607
Other:						
Landfill closure	171	-	(12)	159	(12)	147
Accrued employee benefits	108	-	(57)	51	(2)	49
Capital lease	51	-	(45)	6	(6)	-
Totals	$ 15,061	$ -	$ (1,205)	$ 13,856	$ (1,053)	$ 12,803

	Total Balance 7/1/07	Additions	Reductions	Total Balance 6/30/08	Less Current Portion	Equals Long-Term Portion 6/30/08
Business-Type Activities						
Bonds payable	$ 7,248	$ -	$ (344)	$ 6,904	$ (370)	$ 6,534
Totals	$ 7,248	$ -	$ (344)	$ 6,904	$ (370)	$ 6,534

12. 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 $ 158,600 as landfill closure and postclosure care liability at June 30, 2008. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2008. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

13. 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.

14. 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, 2008:

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

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

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.

15. 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.

16. 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, 2008 was not available.

The Town plans to fully implement GASB 45 in fiscal 2009.

17. Pension Plan

The Town follows the provisions of GASB Statement No. 27, (as amended by GASB 50) Accounting for Pensions for State and Local Government Employees, with respect to the employees' retirement funds. 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.

A. *Plan Description*

The Town contributes to the Worcester Regional Retirement System Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The System issues a publicly available financial report that 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, 2008, 2007, and 2006 were $ 528,940, $ 490,385, and $ 448,808, respectively, which were equal to its annual required contributions for each of these years.

C. *Massachusetts Teacher Retirement System (MTRS) - Plan Description*

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 MTRS was established under Chapter 15, Section 16 of the Massachusetts General Laws, however, 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 Town is not required to contribute.

D. *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 2008, the Commonwealth of Massachusetts contributed $ 918,955 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

18. Risk Management

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

19. Beginning Net Assets Restatement

The beginning (July 1, 2007) net assets balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	$ 31,704,204
To record prior year tax possessions	2,231,916
As restated	$ 33,936,120