

TOWN OF DOUGLAS, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

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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, 2009, 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, 2009, 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 supple-

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

mentary 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 11, 2009 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 11, 2009

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, 2009.

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 infor-

mation 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 \$ 40,224,652 (i.e., net assets), a change of \$ 1,016,934 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 5,100,633, a change of \$ 263,589 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,172,381, a change of \$ 416,661 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 19,141,623, a change of \$ (1,402,572) 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.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 14,324	\$ 14,533	\$ 1,348	\$ 1,464	\$ 15,672	\$ 15,997
Capital assets	<u>35,270</u>	<u>33,772</u>	<u>11,010</u>	<u>11,334</u>	<u>46,280</u>	<u>45,106</u>
Total assets	49,594	48,305	12,358	12,798	61,952	61,103
Long-term liabilities outstanding	12,702	12,803	6,254	6,535	18,956	19,338
Other liabilities	<u>2,271</u>	<u>2,071</u>	<u>500</u>	<u>486</u>	<u>2,771</u>	<u>2,557</u>
Total liabilities	14,973	14,874	6,754	7,021	21,727	21,895
Net assets:						
Invested in capital assets, net	23,357	20,494	4,489	4,444	27,846	24,938
Restricted	1,684	1,253	-	-	1,684	1,253
Unrestricted	<u>9,580</u>	<u>11,684</u>	<u>1,115</u>	<u>1,333</u>	<u>10,695</u>	<u>13,017</u>
Total net assets	\$ <u>34,621</u>	\$ <u>33,431</u>	\$ <u>5,604</u>	\$ <u>5,777</u>	\$ <u>40,225</u>	\$ <u>39,208</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,052	\$ 1,358	\$ 1,093	\$ 1,097	\$ 2,145	\$ 2,455
Operating grants and contributions	10,716	9,719	-	-	10,716	9,719
Capital grants and contributions	2,443	262	-	-	2,443	262
General revenues:						
Property taxes	10,574	10,314	-	-	10,574	10,314
Excises	941	1,060	-	-	941	1,060
Penalties and interest on taxes	152	84	-	-	152	84
Grants and contributions not restricted to specific programs	1,102	1,166	-	-	1,102	1,166
Investment income	94	217	-	-	94	217
Other	<u>558</u>	<u>198</u>	<u>39</u>	<u>59</u>	<u>597</u>	<u>257</u>
Total revenues	<u>27,632</u>	<u>24,378</u>	<u>1,132</u>	<u>1,156</u>	<u>28,764</u>	<u>25,534</u>
Expenses:						
General government	1,624	1,866	-	-	1,624	1,866
Public safety	2,331	2,342	-	-	2,331	2,342
Education	16,124	15,395	-	-	16,124	15,395
Public works	1,121	898	-	-	1,121	898
Human services	207	197	-	-	207	197
Culture and recreation	252	255	-	-	252	255
Employee benefits	3,509	2,976	-	-	3,509	2,976
Intergovernmental	276	317	-	-	276	317
Interest on long-term debt	561	619	-	-	561	619
Miscellaneous	120	21	-	-	120	21
Water	-	-	1,369	1,031	1,369	1,031
Sewer	<u>-</u>	<u>-</u>	<u>253</u>	<u>259</u>	<u>253</u>	<u>259</u>
Total expenses	<u>26,125</u>	<u>24,886</u>	<u>1,622</u>	<u>1,290</u>	<u>27,747</u>	<u>26,176</u>
Change in net assets before transfers	1,507	(508)	(490)	(134)	1,017	(642)
Transfers in (out)	(<u>317</u>)	(<u>303</u>)	<u>317</u>	<u>303</u>	<u>-</u>	<u>-</u>
Change in net assets	1,190	(811)	(173)	169	1,107	(642)
Net assets - beginning of year (as restated)	<u>33,431</u>	<u>34,242</u>	<u>5,777</u>	<u>5,608</u>	<u>39,208</u>	<u>39,850</u>
Net assets - end of year	<u>\$ 34,621</u>	<u>\$ 33,431</u>	<u>\$ 5,604</u>	<u>\$ 5,777</u>	<u>\$ 40,225</u>	<u>\$ 39,208</u>

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 \$ 40,224,652, a change of \$ 1,016,934 from the prior year.

The largest portion of net assets \$ 27,846,583 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 \$ 1,683,178 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 10,694,891 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 \$ 1,189,522. Key elements of this change are as follows:

General fund operating results	\$(168,458)
Stabilization fund deficit	(328,840)
ARRA fund deficit	(4,136)
Nonmajor funds surplus - accrual basis	765,023
Excess depreciation over principal maturities, a budgeted expense	(358,091)
Capital asset donations	2,226,260
Other post employment benefits liability	(900,000)
Other GAAP accruals	(42,236)
Total	<u>\$ 1,189,522</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (172,588). Key elements of this change are as follows:

Water/sewer operations	\$ (184,601)
Transfer station operations	<u>12,013</u>
Total	<u>\$ (172,588)</u>

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 \$ 5,100,633, a change of \$ 263,589 in comparison with the prior year. Key elements of this change are as follows:

General fund operating results	\$(168,458)
Stabilization fund deficit	(328,840)
ARRA fund deficit	(4,136)
Nonmajor funds surplus	<u>765,023</u>
Total	<u>\$ 263,589</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,172,381, while total fund balance was \$ 1,448,895. 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 6.5 percent of that same amount.

The fund balance of the general fund changed by \$ (168,458) during the current fiscal year. Key factors in this change are as follows:

Shortfall state and local revenues over budget	\$ (497,819)
Budgetary appropriation surplus	1,377,499
Shortfall tax collections over budget	(101,807)
Excess of current year encumbrances to be spent in the subsequent year over prior year encumbrances spent in the current year	86,100
Use of free cash	(847,470)
Use of reserved fund balances	(110,848)
Other timing differences	<u>(74,113)</u>
Total	<u>\$ (168,458)</u>

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 \$ 1,114,893, a change of \$ (218,570) 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 \$ 166,494. Major reasons for these amendments include:

- \$ 250,000 increase in Public Works appropriations due to unusually high snow and ice expenditures.

Of this increase, \$ 250,000 was funded from the use of free cash, \$ 5,000 from other funds, while the intergovernmental budgeted revenue decreased by \$ (88,506) due to budget cuts resulting from mid-year reductions in Local Aid ((9c) cuts).

The budget and actual statement reflects an under collection of Intergovernmental revenue, primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund, in accordance with the transparency requirements of the Act. The Chapter 70 revenue shortfall is offset by budgetary turn backs in the school department salaries and wages, expenses, transportation, and employee benefit expenditures. The turn backs result from the Town transferring general fund expenditures to the ARRA major 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 \$ 46,279,863 (net of accumulated depreciation), a change of \$ 1,174,301 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 \$ 2,305,381.

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 \$ 19,141,623 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, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 5,874,841	\$ 1,219,208	\$ 7,094,049
Receivables, net of allowance for uncollectibles:			
Property taxes	486,209	-	486,209
Excises	118,125	-	118,125
User fees	-	115,158	115,158
Departmental and other	124,809	-	124,809
Intergovernmental	797,392	13,680	811,072
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	215,750	-	215,750
Intergovernmental	6,707,143	-	6,707,143
Capital assets:			
Land and construction in progress	5,621,879	401,122	6,023,001
Other capital assets, net of accumulated depreciation	<u>29,648,135</u>	<u>10,608,727</u>	<u>40,256,862</u>
TOTAL ASSETS	49,594,283	12,357,895	61,952,178
LIABILITIES			
Current:			
Warrants payable	569,928	48,991	618,919
Accrued liabilities	403,178	70,482	473,660
Tax refunds payable	86,410	-	86,410
Other current liabilities	106,786	-	106,786
Current portion of long-term liabilities:			
Bonds payable	1,043,892	379,906	1,423,798
Landfill	12,200	-	12,200
Compensated absence	2,964	-	2,964
Capital lease	46,087	-	46,087
Noncurrent:			
Bonds payable, net of current portion	11,563,332	6,154,493	17,717,825
Landfill, net of current portion	134,200	-	134,200
Accrued other post employment benefits	900,000	100,000	1,000,000
Compensated absence, net of current portion	56,308	-	56,308
Capital lease, net of current portion	<u>48,369</u>	<u>-</u>	<u>48,369</u>
TOTAL LIABILITIES	14,973,654	6,753,872	21,727,526
NET ASSETS			
Invested in capital assets, net of related debt	23,357,453	4,489,130	27,846,583
Restricted for:			
Grants and other statutory restrictions	1,557,024	-	1,557,024
Permanent funds:			
Nonexpendable	54,831	-	54,831
Expendable	71,323	-	71,323
Unrestricted	<u>9,579,998</u>	<u>1,114,893</u>	<u>10,694,891</u>
TOTAL NET ASSETS	\$ <u>34,620,629</u>	\$ <u>5,604,023</u>	\$ <u>40,224,652</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,623,540	\$ 62,292	\$ 60,992	\$ 161,300	\$ (1,338,956)	\$ -	\$ (1,338,956)
Public safety	2,331,281	396,105	130,666	-	(1,804,510)	-	(1,804,510)
Education	16,123,856	579,614	10,483,691	12,000	(5,048,551)	-	(5,048,551)
Public works	1,121,415	-	-	2,269,619	1,148,204	-	1,148,204
Health and human services	206,921	14,330	9,666	-	(182,925)	-	(182,925)
Culture and recreation	252,404	-	30,732	-	(221,672)	-	(221,672)
Employee benefits	3,508,954	-	-	-	(3,508,954)	-	(3,508,954)
Interest	560,858	-	-	-	(560,858)	-	(560,858)
Intergovernmental	275,931	-	-	-	(275,931)	-	(275,931)
Miscellaneous	119,613	-	-	-	(119,613)	-	(119,613)
Total Governmental Activities	26,124,773	1,052,341	10,715,747	2,442,919	(11,913,766)	-	(11,913,766)
Business-Type Activities:							
Water/Sewer services	1,369,877	831,889	-	-	-	(537,988)	(537,988)
Transfer station services	253,093	261,166	-	-	-	8,073	8,073
Total Business-Type Activities	1,622,970	1,093,055	-	-	-	(529,915)	(529,915)
Total	\$ 27,747,743	\$ 2,145,396	\$ 10,715,747	\$ 2,442,919	(11,913,766)	(529,915)	(12,443,681)
General Revenues and Transfers:							
Property taxes					10,573,514	-	10,573,514
Excises					940,886	-	940,886
Penalties, interest and other taxes					151,841	-	151,841
Grants and contributions not restricted to specific programs					1,102,562	-	1,102,562
Investment income					93,658	14,866	108,524
Miscellaneous					558,133	25,155	583,288
Transfers, net					(317,306)	317,306	-
Total general revenues and transfers					13,103,288	357,327	13,460,615
Change in Net Assets					1,189,522	(172,588)	1,016,934
Net Assets:							
Beginning of year, as restated					33,431,107	5,776,611	39,207,718
End of year					\$ 34,620,629	\$ 5,604,023	\$ 40,224,652

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Stabilization</u>	<u>ARRA Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 2,357,461	\$ 1,249,078	\$ (4,136)	\$ 2,272,438	\$ 5,874,841
Receivables:					
Property taxes	863,592	-	-	-	863,592
Excises	159,729	-	-	-	159,729
Departmental and other	155	-	-	138,504	138,659
Intergovernmental	18,662	-	-	262,796	281,458
TOTAL ASSETS	\$ 3,399,599	\$ 1,249,078	\$ (4,136)	\$ 2,673,738	\$ 7,318,279
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 494,375	\$ -	\$ -	\$ 75,553	\$ 569,928
Accrued liabilities	293,482	-	-	-	293,482
Deferred revenues	969,650	-	-	191,389	1,161,039
Tax refunds payable	86,410	-	-	-	86,410
Other liabilities	106,787	-	-	-	106,787
TOTAL LIABILITIES	1,950,704	-	-	266,942	2,217,646
Fund Balances:					
Reserved for:					
Encumbrances	276,514	-	-	-	276,514
Perpetual (nonexpendable) permanent funds	-	-	-	54,831	54,831
Unreserved:					
General fund	1,172,381	-	-	-	1,172,381
Special revenue funds	-	1,249,078	(4,136)	1,585,979	2,830,921
Capital project funds	-	-	-	694,663	694,663
Permanent funds	-	-	-	71,323	71,323
TOTAL FUND BALANCES	1,448,895	1,249,078	(4,136)	2,406,796	5,100,633
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,399,599	\$ 1,249,078	\$ (4,136)	\$ 2,673,738	\$ 7,318,279

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, 2009

Total governmental fund balances	\$ 5,100,633
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	35,270,014
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	943,953
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(109,696)
• MSBA receivable not reported in governmental funds	7,223,077
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(13,807,352)</u>
Net assets of governmental activities	\$ <u>34,620,629</u>

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, 2009

	<u>General</u>	<u>Stabilization</u>	<u>ARRA Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 10,496,488	\$ -	\$ -	\$ -	\$ 10,496,488
Excises	937,397	-	-	-	937,397
Penalties, interest and other taxes	151,841	-	-	-	151,841
Charges for services	3,856	-	-	845,816	849,672
Intergovernmental	9,881,418	-	848,655	2,032,699	12,762,772
Licenses and permits	154,846	-	-	-	154,846
Fines and forfeitures	30,930	-	-	-	30,930
Investment income	70,473	21,160	-	2,026	93,659
Miscellaneous	424,505	-	-	142,215	566,720
Total Revenues	<u>22,151,754</u>	<u>21,160</u>	<u>848,655</u>	<u>3,022,756</u>	<u>26,044,325</u>
Expenditures:					
Current:					
General government	1,492,865	-	-	72,885	1,565,750
Public safety	2,146,450	-	1,504	124,428	2,272,382
Education	12,531,417	-	848,279	1,755,065	15,134,761
Public works	1,177,757	-	3,008	252,422	1,433,187
Health and human services	184,829	-	-	22,092	206,921
Culture and recreation	228,841	-	-	13,460	242,301
Employee benefits	2,608,954	-	-	-	2,608,954
Miscellaneous	60,000	-	-	59,613	119,613
Debt service	1,603,630	-	-	-	1,603,630
Intergovernmental	275,931	-	-	-	275,931
Total Expenditures	<u>22,310,674</u>	<u>-</u>	<u>852,791</u>	<u>2,299,965</u>	<u>25,463,430</u>
Excess (deficiency) of revenues over expenditures	(158,920)	21,160	(4,136)	722,791	580,895
Other Financing Sources (Uses):					
Transfers in	319,814	-	-	-	319,814
Transfers out	(329,352)	(350,000)	-	42,232	(637,120)
Total Other Financing Sources (Uses)	<u>(9,538)</u>	<u>(350,000)</u>	<u>-</u>	<u>42,232</u>	<u>(317,306)</u>
Change in fund balance	(168,458)	(328,840)	(4,136)	765,023	263,589
Fund Equity, at Beginning of Year	<u>1,617,353</u>	<u>1,577,918</u>	<u>-</u>	<u>1,641,773</u>	<u>4,837,044</u>
Fund Equity, at End of Year	<u>\$ 1,448,895</u>	<u>\$ 1,249,078</u>	<u>\$ (4,136)</u>	<u>\$ 2,406,796</u>	<u>\$ 5,100,633</u>

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, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 263,589

- 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	671,309
Capital donations	2,226,260
Loss on disposition of assets	(8,587)
Depreciation	(1,390,902)

- 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. (630,398)

- 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	1,032,811
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- In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 9,961

- 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. (984,521)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,189,522

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, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Taxes	\$ 10,598,295	\$ 10,598,295	\$ 10,598,295	\$ -
Excise	971,400	971,400	937,397	(34,003)
Penalties, interest and other taxes	70,000	70,000	151,841	81,841
Charges for services	2,000	2,000	3,856	1,856
Intergovernmental	9,794,286	9,705,780	8,846,635	(859,145)
Licenses and permits	170,000	170,000	154,846	(15,154)
Fines and forfeits	40,000	40,000	30,930	(9,070)
Investment income	90,000	90,000	70,473	(19,527)
Miscellaneous	69,122	69,122	424,505	355,383
Transfers in	314,814	319,814	319,814	-
Use of free cash	597,470	847,470	847,470	-
Other sources	110,848	110,848	110,848	-
Total Revenues and Other Sources	22,828,235	22,994,729	22,496,910	(497,819)
Expenditures and Other Uses:				
General government	1,644,557	1,635,203	1,512,958	122,245
Public safety	2,277,096	2,276,128	2,149,620	126,508
Education	11,927,577	11,865,039	11,466,659	398,380
Public works	1,005,182	1,255,182	1,188,535	66,647
Health and human services	202,349	202,419	185,601	16,818
Culture and recreation	238,568	239,785	235,990	3,795
Debt service	1,922,943	1,922,943	1,920,936	2,007
Intergovernmental	332,101	332,101	275,931	56,170
Employee benefits	3,205,816	3,193,883	2,608,954	584,929
Miscellaneous	60,000	60,000	60,000	-
Transfers out	12,046	12,046	12,046	-
Total Expenditures and Other Uses	22,828,235	22,994,729	21,617,230	1,377,499
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 879,680	\$ 879,680

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 1,103,289	\$ 115,919	\$ 1,219,208
User fees, net of allowance for uncollectibles	115,158	-	115,158
Intergovernmental receivables	13,680	-	13,680
Total current assets	1,232,127	115,919	1,348,046
Noncurrent:			
Capital assets:			
Land and construction in progress	389,384	11,738	401,122
Other capital assets, net of accumulated depreciation	10,608,727	-	10,608,727
Total noncurrent assets	10,998,111	11,738	11,009,849
TOTAL ASSETS	12,230,238	127,657	12,357,895
<u>LIABILITIES</u>			
Current:			
Warrants payable	29,124	19,867	48,991
Accrued liabilities	70,482	-	70,482
Bonds payable	379,906	-	379,906
Total current liabilities	479,512	19,867	499,379
Noncurrent:			
Bonds payable, net of current portion	6,154,493	-	6,154,493
Accrued other post employment benefits	100,000	-	100,000
Total noncurrent liabilities	6,254,493	-	6,254,493
TOTAL LIABILITIES	6,734,005	19,867	6,753,872
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,477,392	11,738	4,489,130
Unrestricted	1,018,841	96,052	1,114,893
TOTAL NET ASSETS	\$ 5,496,233	\$ 107,790	\$ 5,604,023

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, 2009

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
Operating Revenues:			
Charges for services	\$ 831,889	\$ 261,166	\$ 1,093,055
Other	<u>22,775</u>	<u>2,380</u>	<u>25,155</u>
Total Operating Revenues	854,664	263,546	1,118,210
Operating Expenses:			
Operating expenses	825,278	253,093	1,078,371
Depreciation	<u>334,407</u>	<u>-</u>	<u>334,407</u>
Total Operating Expenses	<u>1,159,685</u>	<u>253,093</u>	<u>1,412,778</u>
Operating Income (Loss)	(305,021)	10,453	(294,568)
Nonoperating Revenues (Expenses)			
Investment income	13,306	1,560	14,866
Interest expense	<u>(210,192)</u>	<u>-</u>	<u>(210,192)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(196,886)</u>	<u>1,560</u>	<u>(195,326)</u>
Income (Loss) Before Transfers	(501,907)	12,013	(489,894)
Transfers:			
Transfers in	<u>317,306</u>	<u>-</u>	<u>317,306</u>
Change in Net Assets	(184,601)	12,013	(172,588)
Net Assets at Beginning of Year	<u>5,680,834</u>	<u>95,777</u>	<u>5,776,611</u>
Net Assets at End of Year	<u>\$ 5,496,233</u>	<u>\$ 107,790</u>	<u>\$ 5,604,023</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds		
	Water/Sewer Fund	Transfer Station Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 890,255	\$ 263,546	\$ 1,153,801
Payments to vendors and employees	(722,455)	(253,328)	(975,783)
Net Cash Provided By (Used For) Operating Activities	167,800	10,218	178,018
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	317,306	-	317,306
Net Cash (Used For) Noncapital Financing Activities	317,306	-	317,306
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	(10,628)	-	(10,628)
Principal payments on bonds and notes	(369,761)	-	(369,761)
Interest expense	(210,192)	-	(210,192)
Net Cash (Used For) Capital and Related Financing Activities	(590,581)	-	(590,581)
<u>Cash Flows From Investing Activities:</u>			
Investment income	13,306	1,560	14,866
Net Cash (Used For) Investing Activities	13,306	1,560	14,866
Net Change in Cash and Short-Term Investments	(92,169)	11,778	(80,391)
Cash and Short-Term Investments, Beginning of Year	1,195,458	104,141	1,299,599
Cash and Short-Term Investments, End of Year	\$ 1,103,289	\$ 115,919	\$ 1,219,208
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (loss)	\$ (305,021)	\$ 10,453	\$ (294,568)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	334,407	-	334,407
Changes in assets and liabilities:			
User fees	35,591	-	35,591
Warrants and accounts payable	7,264	(235)	7,029
Accrued liabilities	(4,441)	-	(4,441)
Accrued other post employment benefits	100,000	-	100,000
Net Cash Provided By (Used For) Operating Activities	\$ 167,800	\$ 10,218	\$ 178,018

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short-term investments	\$ 50,603	\$ 400,433
Accounts receivable	<u>-</u>	<u>8,703</u>
Total Assets	50,603	409,136
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	-	7,874
Other liabilities	<u>-</u>	<u>401,262</u>
Total Liabilities	<u>-</u>	<u>409,136</u>
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits pension benefits and other purposes	\$ <u>50,603</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Private Purpose <u>Trust Funds</u>
Additions:	
Contributions	\$ 340
Interest income	<u>1,047</u>
Total additions	1,387
Deductions:	
Education	<u>2,100</u>
Total deductions	<u>2,100</u>
Net increase (decrease)	(713)
Net assets:	
Beginning of year	<u>51,316</u>
End of year	\$ <u><u>50,603</u></u>

See notes to financial statements.

TOWN OF DOUGLAS, MASSACHUSETTS

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 2009, 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* is used to establish a reserve for future funding needs.
- The *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded the community to replace the fiscal year 2009

Chapter 70 State aid reductions. Additionally, this fund accounts for the reduced Cobra premiums for eligible employees due to involuntary termination of employment which are partially reimbursed through ARRA.

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. 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 2009 tax levy reflected an excess capacity of \$ 3,104.

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:

<u>Assets</u>	<u>Years</u>
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 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 22,151,754	\$ 22,310,674
Other financing sources/uses (GAAP basis)	<u>319,814</u>	<u>329,352</u>
Subtotal (GAAP Basis)	22,471,568	22,640,026
Adjust tax revenue to accrual basis	101,807	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(264,527)

(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
To book current year appropriation carryforwards	-	276,514
To record use of free cash	847,470	-
To record use of debt reserves (fund balance)	51,212	-
To reverse the effect of non budgeted State contributions for teachers retirement	(1,034,783)	(1,034,783)
To record use of overlay surplus	<u>59,636</u>	<u>-</u>
Budgetary basis	<u>\$ 22,496,910</u>	<u>\$ 21,617,230</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Preschool	\$ (11,261)
SETB Training	(129)
State 911 Department	(300)
FEMA Ice Storm	(856)
ARRA Health Insurance	(4,136)
GHSB	(1,760)
Chapter 90	(24,636)

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, 2009, none of the Town's bank balance of \$ 7,821,133 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, 2009 consist of the following (in thousands):

Real Estate		
2009	\$ 432	
2008	160	
2007	3	
Prior	<u>1</u>	
		596
Personal Property		
2009	1	
2008	2	
2007	1	
2006	1	
Prior	<u>6</u>	
		11
Tax Liens		<u>257</u>
Total		\$ <u>864</u>

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):

	<u>Governmental</u>
Property taxes	\$ 162
Excises	42
Other	14

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009.

7. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 31,782	\$ -	\$ -	\$ 31,782
Machinery, equipment, and furnishings	5,472	431	(111)	5,792
Infrastructure	<u>2,066</u>	<u>2,305</u>	<u>-</u>	<u>4,371</u>
Total capital assets, being depreciated	39,320	2,736	(111)	41,945
Less accumulated depreciation for:				
Buildings and improvements	(6,709)	(841)	-	(7,550)
Machinery, equipment, and furnishings	(4,004)	(473)	103	(4,374)
Infrastructure	<u>(296)</u>	<u>(77)</u>	<u>-</u>	<u>(373)</u>
Total accumulated depreciation	<u>(11,009)</u>	<u>(1,391)</u>	<u>103</u>	<u>(12,297)</u>
Total capital assets, being depreciated, net	28,311	1,345	(8)	29,648
Capital assets, not being depreciated:				
Land	<u>5,461</u>	<u>161</u>	<u>-</u>	<u>5,622</u>
Total capital assets, not being depreciated	<u>5,461</u>	<u>161</u>	<u>-</u>	<u>5,622</u>
Governmental activities capital assets, net	<u>\$ 33,772</u>	<u>\$ 1,506</u>	<u>\$ (8)</u>	<u>\$ 35,270</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,045	\$ -	\$ -	\$ 8,045
Machinery, equipment, and furnishings	41	-	-	41
Infrastructure	<u>5,355</u>	<u>11</u>	<u>-</u>	<u>5,366</u>
Total capital assets, being depreciated	13,441	11	-	13,452
Less accumulated depreciation for:				
Buildings and improvements	(522)	(201)	-	(723)
Machinery, equipment, and furnishings	(5)	(8)	-	(13)
Infrastructure	<u>(1,981)</u>	<u>(126)</u>	<u>-</u>	<u>(2,107)</u>
Total accumulated depreciation	<u>(2,508)</u>	<u>(335)</u>	<u>-</u>	<u>(2,843)</u>
Total capital assets, being depreciated, net	10,933	(324)	-	10,609
Capital assets, not being depreciated:				
Land	401	-	-	401
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>401</u>	<u>-</u>	<u>-</u>	<u>401</u>
Business-type activities capital assets, net	<u>\$ 11,334</u>	<u>\$ (324)</u>	<u>\$ -</u>	<u>\$ 11,010</u>

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

Governmental Activities:

General government	\$ 66
Public safety	199
Education	987
Public works	129
Culture and recreation	<u>10</u>

Total depreciation expense - governmental activities \$ 1,391

Business-Type Activities:

Water/sewer	\$ <u>335</u>
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Total depreciation expense - business-type activities \$ 355

8. Warrants Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 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, 2009 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 a capital lease expiring in 2011. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2009:

2010	\$ 50,763
2011	<u>50,763</u>
Total minimum lease payments	101,526
Less amount representing interest	(<u>7,070</u>)
Present Value of Minimum Lease Payments	\$ <u>94,456</u>

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:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2009</u>
Land	07/15/18	3.91%	\$ 150,000
Land	04/01/11	3.97%	200,000
Land	06/01/10	4.89%	55,000
Land	12/15/21	4.36%	659,000
Fire/EMS	12/15/12	4.85%	213,849
Fire/EMS	06/01/10	4.92%	10,000
Police	07/17/12	5.63%	115,000
Post Office	12/15/14	5.25%	148,375
Building remodel	07/15/13	3.73%	275,000
Ambulance	12/15/11	3.27%	81,000
High school construction	07/15/23	4.16%	3,290,000
Cafetorium	06/30/11	3.93%	40,000
High school construction	06/01/22	4.05%	<u>7,370,000</u>
Total Governmental Activities:			\$ <u>12,607,224</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2009</u>
Sewer	06/30/11	3.98%	\$ 60,000
Sewer	06/30/11	3.98%	20,000
Water	08/01/24	4.25%	187,275
Well	12/05/14	5.20%	352,688
Water	07/18/34	5.13%	88,790
Water tank	10/15/17	4.95%	341,152
Sewer plant	02/01/25	2.00%	5,199,036
Sewer plant	07/15/24	2.00%	<u>285,458</u>
Total Business-Type Activities:			\$ <u>6,534,399</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,043,892	\$ 519,625	\$ 1,563,517
2011	1,005,030	478,371	1,483,401
2012	916,228	438,909	1,355,137
2013	912,490	402,610	1,315,100
2014	856,605	365,854	1,222,459
2015 - 2019	4,367,979	1,310,184	5,678,163
2020 - 2024	<u>3,505,000</u>	<u>345,215</u>	<u>3,850,215</u>
Total	\$ <u>12,607,224</u>	\$ <u>3,860,768</u>	\$ <u>16,467,992</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	421,364	148,375	569,739
2015 - 2019	1,967,089	455,887	2,422,976
2020 - 2024	2,050,793	122,849	2,173,642
2025 - 2029	500,388	28,838	529,226
2030 - 2034	80,050	12,719	92,769
Thereafter	<u>5,924</u>	<u>204</u>	<u>6,128</u>
Total	\$ <u>6,534,399</u>	\$ <u>1,493,164</u>	\$ <u>8,027,563</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 13,640	\$ -	\$ (1,033)	\$ 12,607	\$ (1,044)	\$ 11,563
Other:						
Landfill closure	159	-	(12)	147	(12)	135
Accrued other post employment benefits	-	900	-	900	-	900
Accrued employee benefits	51	8	-	59	(3)	56
Capital lease	<u>6</u>	<u>143</u>	<u>(55)</u>	<u>94</u>	<u>(46)</u>	<u>48</u>
Totals	\$ <u>13,856</u>	\$ <u>1,051</u>	\$ <u>(1,100)</u>	\$ <u>13,807</u>	\$ <u>(1,105)</u>	\$ <u>12,702</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 6,904	\$ -	\$ (370)	\$ 6,534	\$ (380)	\$ 6,154
Accrued other post employment benefits	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>
Totals	\$ <u>6,904</u>	\$ <u>100</u>	\$ <u>(370)</u>	\$ <u>6,634</u>	\$ <u>(380)</u>	\$ <u>6,254</u>

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 \$ 146,400 as landfill closure and postclosure care liability at June 30, 2009. These amounts are based on what it would cost to perform all closure and postclosure care remaining on the closed landfill site in 2009. 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, 2009:

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.

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 poten-

tial 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. Other Post-Employment Benefits

During the year, the Town implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2009, the actuarial valuation date, approximately 78 retirees and 269 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2009.

Annual Required Contribution (ARC)	\$ 1,298,000
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB cost	1,298,000
Contributions made	(<u>298,000</u>)
Increase in net OPEB obligation	1,000,000
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	\$ <u>1,000,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 1,298,000	23%	\$ 1,000,000

The Town's net OPEB obligation as of June 30, 2009 is recorded as a component of the "other long-term liabilities" line item.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 11,385,000
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>11,385,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ <u>17,172,000</u>
UAAL as a percentage of covered payroll	66%

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 10.5% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

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, 2009, 2008, and 2007 were \$ 596,070, \$ 528,940, and \$ 490,385, 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 2009, the Commonwealth of Massachusetts contributed \$ 1,034,783 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 Fund Balance Net Assets Restatement**

The beginning (July 1, 2008) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	\$ 33,125,357
To record capital assets previously not included	<u>305,750</u>
As restated	<u>\$ 33,431,107</u>

**TOWN OF DOUGLAS, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

(Unaudited)

(Amounts Expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
6/30/2009	\$ -	\$ 11,385,000	\$ 11,385,000	0%	\$ 17,172,000	66%

See Independent Auditors' Report.