

TOWN OF AMESBURY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Municipal Council
Town of Amesbury, 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 Amesbury, Massachusetts, as of and for the year ended June 30, 2008, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 2007) which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Amesbury's 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 Amesbury as of June 30, 2008, (except the Amesbury Contributory Retirement System which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing on page 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In addition, the schedules appearing on pages 47 and 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Amesbury, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 19, 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
February 19, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Amesbury, we offer readers this narrative overview and analysis of the financial activities of the Town of Amesbury for the fiscal year ended June 30, 2008. **Unless otherwise noted, all amounts are expressed in thousands.**

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 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 sewer and water 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 sewer and water 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 sewer and water operations, both 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 financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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 accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 76,813 (i.e., net assets), an increase of \$ 7,583 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 795, a decrease of \$ (6,942) in comparison with the prior year primarily due to the financing of a portion of the high school project with bond anticipation notes.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 430, a decrease of \$ (952) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 30,555, a decrease of \$ (2,571) in comparison to the prior year. Bond anticipation notes at year-end totaled \$ 8,800.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 27,579	\$ 30,780	\$ 2,354	\$ 2,632	\$ 29,933	\$ 33,412
Capital assets	<u>63,761</u>	<u>52,977</u>	<u>29,294</u>	<u>30,378</u>	<u>93,055</u>	<u>83,355</u>
Total assets	91,340	83,757	31,648	33,010	122,988	116,767
Other liabilities	13,208	12,097	1,640	1,640	14,848	13,737
Long-term liabilities outstanding	<u>12,704</u>	<u>13,955</u>	<u>18,622</u>	<u>19,845</u>	<u>31,326</u>	<u>33,800</u>
Total liabilities	25,912	26,052	20,262	21,485	46,174	47,537
Net assets:						
Invested in capital assets, net	44,236	33,193	9,463	9,565	53,699	42,758
Restricted	3,081	2,972	-	-	3,081	2,972
Unrestricted	<u>18,110</u>	<u>21,540</u>	<u>1,923</u>	<u>1,960</u>	<u>20,033</u>	<u>23,500</u>
Total net assets	<u>\$ 65,427</u>	<u>\$ 57,705</u>	<u>\$ 11,386</u>	<u>\$ 11,525</u>	<u>\$ 76,813</u>	<u>\$ 69,230</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,761	\$ 1,901	\$ 5,065	\$ 4,742	\$ 6,826	\$ 6,643
Operating grants and contributions	16,994	17,265	-	-	16,994	17,265
Capital grants and contributions	760	362	-	-	760	362
General revenues:						
Property taxes	30,352	28,047	-	-	30,352	28,047
Excises	1,761	1,724	-	-	1,761	1,724
Penalties, interest and other taxes	126	184	-	-	126	184
Grants and contributions not restricted to specific programs	12,178	16,558	-	-	12,178	16,558
Insurance proceeds	-	6,000	-	-	-	6,000
Investment income	498	501	-	-	498	501
Miscellaneous	478	333	-	-	478	333
Total revenues	<u>64,908</u>	<u>72,875</u>	<u>5,065</u>	<u>4,742</u>	<u>69,973</u>	<u>77,617</u>
Expenses:						
General government	4,152	4,653	-	-	4,152	4,653
Public safety	6,831	6,637	-	-	6,831	6,637
Education	31,590	30,006	-	-	31,590	30,006
Public works	3,752	3,101	-	-	3,752	3,101
Human services	620	425	-	-	620	425
Culture and recreation	1,059	1,184	-	-	1,059	1,184
Employee benefits	4,583	4,117	-	-	4,583	4,117
Intergovernmental	3,680	3,780	-	-	3,680	3,780
Interest on long-term debt	880	964	-	-	880	964
Sewer services	-	-	2,419	2,232	2,419	2,232
Water services	-	-	2,824	2,717	2,824	2,717
Total expenses	<u>57,147</u>	<u>54,867</u>	<u>5,243</u>	<u>4,949</u>	<u>62,390</u>	<u>59,816</u>
Change in net assets before transfers	7,761	18,008	(178)	(207)	7,583	17,801
Transfers	<u>(39)</u>	<u>(64)</u>	<u>39</u>	<u>64</u>	<u>-</u>	<u>-</u>
Increase in net assets	7,722	17,944	(139)	(143)	7,583	17,801
Net assets - beginning of year	<u>57,705</u>	<u>39,761</u>	<u>11,525</u>	<u>11,668</u>	<u>69,230</u>	<u>51,429</u>
Net assets - end of year	<u>\$ 65,427</u>	<u>\$ 57,705</u>	<u>\$ 11,386</u>	<u>\$ 11,525</u>	<u>\$ 76,813</u>	<u>\$ 69,230</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 \$ 76,813, a change of \$ 7,582 from the prior year.

The largest portion of net assets \$ 53,699 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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 \$ 3,080 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 20,033 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 \$ 7,722. Key elements of this change are as follows:

General fund expenditures and transfers out, in excess of revenues and transfers in	\$ (982)
Nonmajor fund revenues and transfers in, in excess of expenditures and transfers out	727
Massachusetts School Building Authority grants	2,514
Capital assets acquired from insurance proceeds	6,000
Depreciation in excess of principal debt service	(543)
Other	<u>6</u>
Total	<u>\$ 7,722</u>

Business-type activities. Business-type activities for the year resulted in a decrease in net assets of \$ (140), primarily from weaker than expected revenues.

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 a decrease of \$ (6,942) for a combined ending fund balance of \$ 795. Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (982)
Excess of capital expenditures over MSBA grant revenues and insurance proceeds	(6,687)
Other funds	<u>727</u>
Total	<u>\$ (6,942)</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 \$ 430, while total fund balance was \$ 521. 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 0.8 percent of total general fund expenditures, while total fund balance represents 1 percent of that same amount.

The fund balance of the general fund changed by \$ (982) during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (772)
Revenues less than budget	(254)
Expenditures less than budget	149
Other	<u>(105)</u>
Total	<u>\$ (982)</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 \$ 1,923, a decrease of \$ (37) 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 \$ 1,271. Major reasons for these amendments include:

- \$ 390 appropriated for the Whittier Regional Vocation School assessment funded by the tax levy.
- \$ 315 appropriated for snow and ice expenditures, funded by free cash.
- \$ 257 appropriated for equipment and miscellaneous capital projects, funded by free cash.
- \$ 89 appropriated to the fire department funded by a transfer from the Ambulance revolving fund.
- \$ 200 transferred to the Stabilization fund, funded by free cash.
- \$ 20 appropriated for Youth Services, funded by a transfer from special revenue funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 93,055 (net of accumulated depreciation), a net increase of \$ 9,700 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following (in thousands):

Police station renovations	\$	96
High school renovations	\$	12,000
Vehicles	\$	284
Land and improvements	\$	294

Change in credit rating. During the fiscal year, the Town’s Standard & Poor credit rating upgraded to A from A-.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 30,555, 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.

G. ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The fiscal year 2009 general fund operating budget increased approximately 1.9% to \$ 48,800. Our tax rate for fiscal year 2009 was certified at \$ 16.53.

REQUESTS FOR INFORMATION

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

Chief Financial Officer
Town of Amesbury
62 Friend Street
Amesbury, MA 01913

TOWN OF AMESBURY, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 12,222,675	\$ 95,016	\$ 12,317,691
Investments	1,553,665	-	1,553,665
Receivables, net of allowance for uncollectibles:			
Property taxes	820,577	-	820,577
Excises	261,454	-	261,454
User fees	-	2,307,861	2,307,861
Departmental and other	167,278	-	167,278
Intergovernmental	959,864	-	959,864
Interfund balance	48,662	(48,662)	-
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	284,288	-	284,288
Intergovernmental	11,167,875	-	11,167,875
Deferred assets	92,427	-	92,427
Capital Assets:			
Land and construction in progress	1,727,413	1,053,846	2,781,259
Other capital assets, net of accumulated depreciation	<u>62,033,455</u>	<u>28,239,836</u>	<u>90,273,291</u>
TOTAL ASSETS	91,339,633	31,647,897	122,987,530
LIABILITIES			
Current:			
Warrants payable	2,284,665	-	2,284,665
Accrued liabilities	3,423,617	339,994	3,763,611
Notes payable	7,500,000	1,300,000	8,800,000
Current portion of long-term liabilities:			
Bonds payable	1,332,740	1,230,912	2,563,652
Other liabilities	33,976	-	33,976
Noncurrent:			
Bonds payable, net of current portion	10,691,838	17,299,866	27,991,704
Other liabilities, net of current portion	<u>645,551</u>	<u>91,375</u>	<u>736,926</u>
TOTAL LIABILITIES	25,912,387	20,262,147	46,174,534
NET ASSETS			
Invested in capital assets, net of related debt	44,236,290	9,462,904	53,699,194
Restricted for:			
Grants and other statutory restrictions	2,393,122	-	2,393,122
Permanent funds:			
Nonexpendable	600,054	-	600,054
Expendable	87,680	-	87,680
Unrestricted	<u>18,110,100</u>	<u>1,922,846</u>	<u>20,032,946</u>
TOTAL NET ASSETS	<u>\$ 65,427,246</u>	<u>\$ 11,385,750</u>	<u>\$ 76,812,996</u>

TOWN OF AMESBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	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	\$ 4,151,851	\$ 556,407	\$ 523,563	\$ 468,325	\$ (2,603,556)	\$ -	\$ (2,603,556)
Public safety	6,830,811	554,387	621,997	-	(5,654,427)	-	(5,654,427)
Education	31,590,115	333,381	15,718,258	-	(15,538,476)	-	(15,538,476)
Public works	3,751,589	73,046	41,864	291,804	(3,344,875)	-	(3,344,875)
Health and human services	619,782	37,859	26,759	-	(555,164)	-	(555,164)
Culture and recreation	1,059,471	205,934	61,438	-	(792,099)	-	(792,099)
Employee benefits	4,583,510	-	-	-	(4,583,510)	-	(4,583,510)
Interest	880,417	-	-	-	(880,417)	-	(880,417)
Intergovernmental	3,679,539	-	-	-	(3,679,539)	-	(3,679,539)
Total Governmental Activities	<u>57,147,085</u>	<u>1,761,014</u>	<u>16,993,879</u>	<u>760,129</u>	<u>(37,632,063)</u>	<u>-</u>	<u>(37,632,063)</u>
Business-Type Activities:							
Sewer services	2,419,563	2,535,793	-	-	-	116,230	116,230
Water services	2,824,502	2,529,440	-	-	-	(295,062)	(295,062)
Total Business-Type Activities	<u>5,244,065</u>	<u>5,065,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(178,832)</u>	<u>(178,832)</u>
Total	<u>\$ 62,391,150</u>	<u>\$ 6,826,247</u>	<u>\$ 16,993,879</u>	<u>\$ 760,129</u>	<u>(37,632,063)</u>	<u>(178,832)</u>	<u>(37,810,895)</u>
General Revenues and transfers:							
Property taxes					30,352,002	-	30,352,002
Excises					1,760,994	-	1,760,994
Penalties, interest and other taxes					126,543	-	126,543
Grants and contributions not restricted to specific programs					-	-	-
Insurance proceeds					12,178,383	-	12,178,383
Investment income					-	-	-
Miscellaneous					497,593	-	497,593
Transfers					477,811	-	477,811
					(38,995)	38,995	-
Total general revenues and transfers					<u>45,354,331</u>	<u>38,995</u>	<u>45,393,326</u>
Change in Net Assets					7,722,268	(139,837)	7,582,431
Net Assets:							
Beginning of year					<u>57,704,978</u>	<u>11,525,587</u>	<u>69,230,565</u>
End of year					<u>\$ 65,427,246</u>	<u>\$ 11,385,750</u>	<u>\$ 76,812,996</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

ASSETS	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 4,239,480	\$ 4,472,968	\$ 3,510,227	\$ 12,222,675
Investments	-	-	1,553,665	1,553,665
Receivables:				
Property taxes	1,218,678	-	-	1,218,678
Excises	500,392	-	-	500,392
Departmental and other	-	-	167,278	167,278
Intergovernmental	49,173	-	143,926	193,099
Due to other funds	<u>48,662</u>	<u>-</u>	<u>-</u>	<u>48,662</u>
TOTAL ASSETS	<u>\$ 6,056,385</u>	<u>\$ 4,472,968</u>	<u>\$ 5,375,096</u>	<u>\$ 15,904,449</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 1,469,986	\$ 541,501	\$ 273,178	\$ 2,284,665
Accrued liabilities	2,296,763	681,472	410,650	3,388,885
Deferred revenues	1,768,243	-	167,277	1,935,520
Notes payable	<u>-</u>	<u>7,500,000</u>	<u>-</u>	<u>7,500,000</u>
TOTAL LIABILITIES	5,534,992	8,722,973	851,105	15,109,070
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	63,320	1,402,178	18,060	1,483,558
Permanent perpetual funds	-	-	600,054	600,054
Debt service	28,373	-	-	28,373
Unreserved:				
Undesignated, reported in:				
General fund	429,700	-	-	429,700
Special revenue funds	-	-	3,373,823	3,373,823
Capital project funds	-	(5,652,183)	444,374	(5,207,809)
Permanent funds	<u>-</u>	<u>-</u>	<u>87,680</u>	<u>87,680</u>
TOTAL FUND BALANCES	<u>521,393</u>	<u>(4,250,005)</u>	<u>4,523,991</u>	<u>795,379</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,056,385</u>	<u>\$ 4,472,968</u>	<u>\$ 5,375,096</u>	<u>\$ 15,904,449</u>

See notes to financial statements.

TOWN OF AMESBURY, 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	\$ 795,379
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	63,760,868
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	1,675,196
<ul style="list-style-type: none">• MSBA reimbursements for contract assistance and progress payment projects, are not receivable in the current period and, therefore, are not reported in the governmental funds	11,934,640
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(34,732)
<ul style="list-style-type: none">• 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>(12,704,105)</u>
Net assets of governmental activities	<u><u>\$ 65,427,246</u></u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>High School Project</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 30,247,105	\$ -	\$ -	\$ 30,247,105
Excise taxes	1,758,552	-	-	1,758,552
Penalties, interest and other taxes	126,543	-	-	126,543
Charges for services	202,238	-	1,196,993	1,399,231
Intergovernmental	16,418,149	5,153,929	5,845,483	27,417,561
Licenses and permits	223,462	-	-	223,462
Fines and forfeitures	138,320	-	-	138,320
Investment income	197,038	246,073	54,482	497,593
Miscellaneous	331,310	-	147,605	478,915
Total Revenues	<u>49,642,717</u>	<u>5,400,002</u>	<u>7,244,563</u>	<u>62,287,282</u>
Expenditures:				
Current:				
General government	2,373,116	-	1,128,447	3,501,563
Public safety	6,421,903	-	498,815	6,920,718
Education	27,527,679	12,086,850	3,531,472	43,146,001
Public works	2,782,589	-	887,811	3,670,400
Health and human services	595,251	-	20,067	615,318
Culture and recreation	551,064	-	286,883	837,947
Employee benefits	4,583,510	-	-	4,583,510
Debt service	2,235,681	-	-	2,235,681
Intergovernmental	3,679,539	-	-	3,679,539
Total Expenditures	<u>50,750,332</u>	<u>12,086,850</u>	<u>6,353,495</u>	<u>69,190,677</u>
Excess (deficiency) of revenues over expenditures	(1,107,615)	(6,686,848)	891,068	(6,903,395)
Other Financing Sources (Uses):				
Transfers in	663,300	-	538,000	1,201,300
Transfers out	(538,000)	-	(702,295)	(1,240,295)
Total Other Financing Sources (Uses)	<u>125,300</u>	<u>-</u>	<u>(164,295)</u>	<u>(38,995)</u>
Change in fund balance	(982,315)	(6,686,848)	726,773	(6,942,390)
Fund Balance, at Beginning of Year	<u>1,503,708</u>	<u>2,436,843</u>	<u>3,797,218</u>	<u>7,737,769</u>
Fund Balance, at End of Year	<u>\$ 521,393</u>	<u>\$ (4,250,005)</u>	<u>\$ 4,523,991</u>	<u>\$ 795,379</u>

See notes to financial statements.

TOWN OF AMESBURY, 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 CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (6,942,390)														
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Capital outlay purchases, net</td> <td style="text-align: right;">12,673,435</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(1,889,706)</td> </tr> </table> • 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 <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">107,339</td> </tr> </table> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance and progress payments, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">2,513,725</td> </tr> </table> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">1,346,300</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">18,207</td> </tr> </table> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(104,642)</u></td> </tr> </table> 		Capital outlay purchases, net	12,673,435	Depreciation	(1,889,706)		107,339		2,513,725	Repayments of debt	1,346,300		18,207		<u>(104,642)</u>
Capital outlay purchases, net	12,673,435														
Depreciation	(1,889,706)														
	107,339														
	2,513,725														
Repayments of debt	1,346,300														
	18,207														
	<u>(104,642)</u>														
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>7,722,268</u>														

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 29,720,048	\$ 30,110,312	\$ 30,110,312	\$ -
Motor vehicle excise	1,811,414	1,811,414	1,758,552	(52,862)
Penalties, interest and other taxes	126,556	126,556	126,543	(13)
Intergovernmental	12,900,395	12,900,395	12,875,866	(24,529)
Charges for services	253,375	253,375	221,598	(31,777)
Licenses and permits	228,449	228,449	223,462	(4,987)
Fines and forfeits	135,800	135,800	138,320	2,520
Investment income	347,061	347,061	197,038	(150,023)
Miscellaneous	520,176	520,176	527,265	7,089
Transfers in	554,300	663,300	663,300	-
Other sources	-	772,000	772,000	-
	<u>46,597,574</u>	<u>47,868,838</u>	<u>47,614,256</u>	<u>(254,582)</u>
Expenditures and Other Uses:				
General government	2,092,956	2,140,956	2,095,425	45,531
Public safety	6,258,473	6,444,473	6,432,593	11,880
Education	24,200,719	24,200,719	24,200,711	8
Public works	2,532,748	2,847,748	2,791,573	56,175
Health and human services	532,780	600,780	594,816	5,964
Culture and recreation	552,030	552,030	551,104	926
Debt service	2,332,171	2,333,471	2,333,436	35
Intergovernmental	3,297,913	3,688,177	3,679,539	8,638
Employee benefits	4,797,784	4,603,484	4,583,510	19,974
Transfers out	-	457,000	457,000	-
	<u>46,597,574</u>	<u>47,868,838</u>	<u>47,719,707</u>	<u>149,131</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(105,451)</u>	\$ <u>(105,451)</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ -	\$ 95,016	\$ 95,016
User fees, net of allowance for uncollectibles	<u>1,166,540</u>	<u>1,141,321</u>	<u>2,307,861</u>
Total current assets	1,166,540	1,236,337	2,402,877
Noncurrent:			
Capital assets not being depreciated	331,418	722,428	1,053,846
Capital assets being depreciated, net of accumulated depreciation	<u>19,686,899</u>	<u>8,552,937</u>	<u>28,239,836</u>
Total noncurrent assets	<u>20,018,317</u>	<u>9,275,365</u>	<u>29,293,682</u>
TOTAL ASSETS	21,184,857	10,511,702	31,696,559
<u>LIABILITIES</u>			
Current:			
Accrued liabilities	268,130	71,864	339,994
Due to other funds	48,662	-	48,662
Notes payable	800,000	500,000	1,300,000
Current portion of long-term liabilities:			
Bonds payable	<u>888,162</u>	<u>342,750</u>	<u>1,230,912</u>
Total current liabilities	2,004,954	914,614	2,919,568
Noncurrent:			
Bonds payable, net of current portion	13,443,514	3,856,352	17,299,866
Other liabilities, net of current portion	<u>29,551</u>	<u>61,824</u>	<u>91,375</u>
Total noncurrent liabilities	<u>13,473,065</u>	<u>3,918,176</u>	<u>17,391,241</u>
TOTAL LIABILITIES	15,478,019	4,832,790	20,310,809
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,886,641	4,576,263	9,462,904
Unrestricted	<u>820,197</u>	<u>1,102,649</u>	<u>1,922,846</u>
TOTAL NET ASSETS	\$ <u>5,706,838</u>	\$ <u>5,678,912</u>	\$ <u>11,385,750</u>

See notes to financial statements.

TOWN OF AMESBURY, 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		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ <u>2,535,793</u>	\$ <u>2,529,440</u>	\$ <u>5,065,233</u>
Total Operating Revenues	2,535,793	2,529,440	5,065,233
Operating Expenses:			
Personnel	653,184	945,927	1,599,111
Non-personnel	708,145	1,306,187	2,014,332
Depreciation	<u>725,117</u>	<u>359,047</u>	<u>1,084,164</u>
Total Operating Expenses	<u>2,086,446</u>	<u>2,611,161</u>	<u>4,697,607</u>
Operating Income	449,347	(81,721)	367,626
Nonoperating Expenses:			
Interest expense	<u>(333,117)</u>	<u>(213,341)</u>	<u>(546,458)</u>
Total Nonoperating Expenses	(333,117)	(213,341)	(546,458)
Transfers:			
Transfers in	<u>38,995</u>	<u>-</u>	<u>38,995</u>
Total Transfers	<u>38,995</u>	<u>-</u>	<u>38,995</u>
Change in Net Assets	155,225	(295,062)	(139,837)
Net Assets at Beginning of Year	<u>5,551,613</u>	<u>5,973,974</u>	<u>11,525,587</u>
Net Assets at End of Year	<u>\$ 5,706,838</u>	<u>\$ 5,678,912</u>	<u>\$ 11,385,750</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 2,539,920	\$ 2,602,869	\$ 5,142,789
Payments to vendors	(708,126)	(1,306,005)	(2,014,131)
Payments of employees' wages and related benefits	<u>(651,730)</u>	<u>(945,312)</u>	<u>(1,597,042)</u>
Net Cash Provided By Operating Activities	1,180,064	351,552	1,531,616
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	<u>38,995</u>	<u>-</u>	<u>38,995</u>
Net Cash Provided By Noncapital Financing Activities	38,995	-	38,995
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from issuance of bonds and notes	800,000	500,000	1,300,000
Principal payments on bonds and notes	(1,683,843)	(840,745)	(2,524,588)
Interest expense	<u>(343,797)</u>	<u>(202,388)</u>	<u>(546,185)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(1,227,640)</u>	<u>(543,133)</u>	<u>(1,770,773)</u>
Net Change in Cash and Short-Term Investments	(8,581)	(191,581)	(200,162)
Cash and Short-Term Investments, Beginning of Year	<u>8,581</u>	<u>286,597</u>	<u>295,178</u>
Cash and Short-Term Investments, End of Year	<u>\$ -</u>	<u>\$ 95,016</u>	<u>\$ 95,016</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income	\$ 449,347	\$ (81,721)	\$ 367,626
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	725,117	359,047	1,084,164
Changes in assets and liabilities:			
User fees	45,919	73,428	119,347
Accrued liabilities	1,473	798	2,271
Due to other funds	<u>(41,792)</u>	<u>-</u>	<u>(41,792)</u>
Net Cash Provided By Operating Activities	<u>\$ 1,180,064</u>	<u>\$ 351,552</u>	<u>\$ 1,531,616</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Pension Trust Fund (As of <u>December 31, 2007</u>)	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 5,598,074	\$ 96,500	\$ 133,881
Investments	33,727,418	1,757,347	-
Accounts receivable	<u>13,872</u>	<u>-</u>	<u>-</u>
Total Assets	39,339,364	1,853,847	133,881
<u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>125,277</u>	<u>-</u>	<u>133,881</u>
Total Liabilities	<u>125,277</u>	<u>-</u>	<u>133,881</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 39,214,087</u>	<u>\$ 1,853,847</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (For the Year Ended <u>December 31, 2007</u>)	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 2,615,125	\$ -
Other systems and Commonwealth of Massachusetts	255,791	-
Plan members	1,115,850	-
Other	-	153,669
Total contributions	<u>3,986,766</u>	<u>153,669</u>
Investment Income:		
Increase in fair value of investments	3,145,545	76,873
Less: management fees	<u>(168,930)</u>	-
Net investment income	<u>2,976,615</u>	<u>76,873</u>
Total additions	6,963,381	230,542
Deductions:		
Benefit payments to plan members and beneficiaries	3,462,422	-
Refunds to plan members	72,273	-
Administrative expenses	130,816	-
Other	175,421	187,297
Total deductions	<u>3,840,932</u>	<u>187,297</u>
Net increase	3,122,449	43,245
Net assets:		
Beginning of year	<u>36,091,638</u>	<u>1,810,602</u>
End of year	<u>\$ 39,214,087</u>	<u>\$ 1,853,847</u>

See notes to financial statements.

TOWN OF AMESBURY, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Amesbury (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 Mayor and Municipal Council. 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.

Component Units - Component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Amesbury Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 62 Friend Street, Amesbury, MA 01913.

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 activities) 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. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 is 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 *High School Project fund* is a major capital project fund which is used to account for renovations to the high school.

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 nonoperating 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:

- The *sewer fund* is used to report the Town's sewer enterprise fund operations.
- The *water fund* is used to report the Town's water enterprise fund operations.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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.

The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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 are included under investment income.

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 ½" has limited 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 is voted. The actual fiscal year 2008 tax levy reflected an excess capacity of \$ 171,835.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

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

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

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

Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	40
Vehicles	5
Office equipment	5 - 10
Computer equipment	5

I. 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.

J. 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.

K. 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.

L. 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

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Municipal Council, 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 Municipal Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Municipal Council 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 and Proprietary Funds. 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)	\$ 49,642,717	\$ 50,750,332
Other financing sources/uses (GAAP basis)	<u>663,300</u>	<u>538,000</u>
Subtotal (GAAP Basis)	50,306,017	51,288,332
Adjust tax revenue to accrual basis	(136,793)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(79,149)
Add end of year appropriation carryforwards to expenditures	-	62,872
To record use of free cash	772,000	-
To reverse the effect of non-budgeted State contributions for teachers retirement	(3,326,968)	(3,326,968)
Other timing issues	<u>-</u>	<u>(225,380)</u>
Budgetary basis	<u>\$ 47,614,256</u>	<u>\$ 47,719,707</u>

D. Deficit Fund Equity

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

Major governmental fund:	
High School Project	\$ (4,250,005)
Nonmajor governmental funds:	
Chapter 90 Highway	\$ (217,229)
Circuit Breaker	\$ (143,387)
Police Off Duty	\$ (14,683)
Heritage Exhibit	\$ (4,548)
Fire Off Duty	\$ (2,240)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, MSBA grant revenues, 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 and Contributory Retirement System's (the System) 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."

Massachusetts General Law Chapter 32, Section 23, limits the Contributory Retirement System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The Town and System do not have a deposit policy for custodial credit risk.

As of June 30, 2008 and December 31, 2007, \$ 12,406,241 of the Town's bank balance of \$ 13,106,640, and \$ 1,231,187 of the System's bank balance of \$ 5,598,074, respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's and System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year end for each investment of the Town (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	Fair <u>Value</u>	<u>Rating as of Year End</u>	
			<u>Aaa</u>
U.S. Treasury notes	\$ 151	\$	151
Federal agency securities	<u>3,160</u>		<u>3,160</u>
Total investments	\$ <u>3,311</u>	\$	<u>3,311</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Presented below is the actual rating as of year end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>	<u>Average Credit Rating</u>
Pooled Real Estate Funds	\$ 86	NA	NA
Pooled Domestic Equity Funds	5	NA	NA
State Investment Pool*	<u>33,636</u>	NA	NA
Total investments	\$ <u><u>33,727</u></u>		

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town and the System do not have policies for custodial credit risk.

C. Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are:

Federal National Mortgage Association	\$ 1,094,624
Federal Home Loan Mortgage Corp.	\$ 953,252
Federal Home Loan Bank	\$ 1,112,075

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Related Securities:				
U.S. Treasury notes	\$ 151	\$ -	\$ 151	\$ -
Federal agency securities	<u>3,160</u>	<u>286</u>	<u>1,228</u>	<u>1,646</u>
Total	<u>\$ 3,311</u>	<u>\$ 286</u>	<u>\$ 1,379</u>	<u>\$ 1,646</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The Town and System do not have policies for foreign currency risk.

5. 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	\$ 724	
2007	10	
Prior	<u>1</u>	
		735
Personal Property		
2008	\$ 15	
2007	5	
2006	<u>8</u>	
		28
Tax Liens		275
Deferred Taxes		<u>181</u>
Total		<u>\$ 1,219</u>

6. 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	\$ 114
Excises	239

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2008 grant funds. Future receipt of MSBA payments are as follows:

2009	\$ 766,765
2010	766,765
2011	766,765
2012	766,765
2013	766,765
2014-2018	<u>3,833,829</u>
	<u>\$ 7,667,654</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2008 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	\$ 68,755	\$ 12,138	\$ -	\$ 80,893
Machinery, equipment, and furnishings	2,960	284	-	3,244
Infrastructure	<u>18,193</u>	<u>-</u>	<u>-</u>	<u>18,193</u>
Total capital assets, being depreciated	89,908	12,422	-	102,330
Less accumulated depreciation for:				
Buildings and improvements	(20,006)	(1,591)	-	(21,597)
Machinery, equipment, and furnishings	(2,042)	(215)	-	(2,257)
Infrastructure	<u>(16,358)</u>	<u>(84)</u>	<u>-</u>	<u>(16,442)</u>
Total accumulated depreciation	<u>(38,406)</u>	<u>(1,890)</u>	<u>-</u>	<u>(40,296)</u>
Total capital assets, being depreciated, net	51,502	10,532	-	62,034
Capital assets, not being depreciated:				
Land	<u>1,475</u>	<u>252</u>	<u>-</u>	<u>1,727</u>
Total capital assets, being depreciated, net	<u>1,475</u>	<u>252</u>	<u>-</u>	<u>1,727</u>
Governmental activities capital assets, net	<u>\$ 52,977</u>	<u>\$ 10,784</u>	<u>\$ -</u>	<u>\$ 63,761</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	\$ 42,222	\$ -	\$ -	\$ 42,222
Machinery, equipment, and furnishings	<u>347</u>	<u>-</u>	<u>-</u>	<u>347</u>
Total capital assets, being depreciated	42,569	-	-	42,569
Less accumulated depreciation for:				
Buildings and improvements	(13,061)	(1,049)	-	(14,110)
Machinery, equipment, and furnishings	<u>(184)</u>	<u>(35)</u>	<u>-</u>	<u>(219)</u>
Total accumulated depreciation	<u>(13,245)</u>	<u>(1,084)</u>	<u>-</u>	<u>(14,329)</u>
Total capital assets, being depreciated, net	29,324	(1,084)	-	28,240
Capital assets, not being depreciated:				
Land	<u>1,054</u>	<u>-</u>	<u>-</u>	<u>1,054</u>
Total capital assets, being depreciated, net	<u>1,054</u>	<u>-</u>	<u>-</u>	<u>1,054</u>
Business-type activities capital assets, net	<u>\$ 30,378</u>	<u>\$ (1,084)</u>	<u>\$ -</u>	<u>\$ 29,294</u>

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

Governmental Activities:	
General government	\$ 858
Public safety	149
Education	515
Public works	151
Culture and recreation	<u>217</u>
Total depreciation expense - governmental activities	<u>\$ 1,890</u>
Business-Type Activities:	
Water	\$ 725
Sewer	<u>359</u>
Total depreciation expense - business-type activities	<u>\$ 1,084</u>

9. Warrants and Accounts Payable

Warrants payable represent 2008 expenditures paid by July 15, 2008. Accounts payable represent additional 2008 expenditures paid after July 15, 2008.

10. 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.

11. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2008:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>June 30, 2008</u>
Schools	4.25%	08/09/07	08/08/08	\$ 7,500,000
Sewer Treatment	4.25%	08/09/07	08/08/08	800,000
Water Treatment	4.25%	08/09/07	08/08/08	<u>500,000</u>
Total				<u>\$ 8,800,000</u>

The following summarizes activity in notes payable during fiscal year 2008:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 781,000	\$ -	\$ (781,000)	\$ -
Bond anticipation	8,100,000	-	(8,100,000)	-
Bond anticipation	<u>-</u>	<u>8,800,000</u>	<u>-</u>	<u>8,800,000</u>
Total	<u>\$ 8,881,000</u>	<u>\$ 8,800,000</u>	<u>\$ (8,881,000)</u>	<u>\$ 8,800,000</u>

12. Long-Term Debt

A. General Obligation Bonds

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

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of <u>June 30, 2008</u>
Relocate utility poles	11/01/08	4.50 - 4.70	\$ 20,000
Cashman school	11/01/18	4.50 - 5.25	150,000
Surface drains	11/01/18	4.50 - 5.25	50,000
Municipal purpose	08/15/23	2.75 - 4.80	1,000,000
Municipal refunding 2005	09/15/18	3.00 - 5.00	<u>10,804,578</u>
Total Governmental Activities:			<u>\$ 12,024,578</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2008</u>
Sewer 95-11	02/01/17	6.00 - 5.625	\$ 656,223
Title 5	08/01/18	4.00 - 5.00	28,042
Sewer purposes	11/01/18	4.50 - 5.25	150,000
Pow Wow Hill Reservoir	11/01/18	4.50 - 5.25	230,000
Water distribution	11/01/18	4.50 - 5.25	100,000
Sewer 98-93	08/01/20	4.50 - 5.25	174,498
Sewer 01-13	08/01/22	3.00 - 5.00	7,085,017
Sewer CW-02-17A	08/01/23	2.00 - 5.00	1,616,647
Sewer CW-02-17B	08/01/23	2.00 - 5.00	389,687
Sewer purposes	08/15/23	2.75 - 4.80	2,180,000
Water	08/15/23	2.75 - 4.80	1,845,000
Sewer refunding 2005	09/15/18	3.00 - 5.00	1,101,320
Water refunding 2005	09/15/18	3.00 - 5.00	2,024,102
Sewer CW-02-17C	09/15/27		950,242
Total Business-Type Activities:			<u>\$ 18,530,778</u>

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:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,332,740	\$ 493,173	\$ 1,825,913
2010	1,303,780	451,255	1,755,035
2011	1,289,010	410,768	1,699,778
2012	1,159,628	362,033	1,521,661
2013	1,155,150	306,156	1,461,306
2014 - 2018	5,607,030	692,427	6,299,457
2019 - 2023	177,240	32,437	209,677
2024 - 2028	-	1,200	1,200
Total	<u>\$ 12,024,578</u>	<u>\$ 2,749,449</u>	<u>\$ 14,774,027</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,230,912	\$ 542,419	\$ 1,773,331
2010	1,263,312	504,828	1,768,140
2011	1,274,261	465,344	1,739,605
2012	1,278,518	428,987	1,707,505
2013	1,291,409	386,587	1,677,996
2014 - 2018	6,411,945	1,291,260	7,703,205
2019 - 2023	5,195,373	420,966	5,616,339
2024 - 2028	<u>585,048</u>	<u>12,670</u>	<u>597,718</u>
Total	\$ <u>18,530,778</u>	\$ <u>4,053,061</u>	\$ <u>22,583,839</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total Balance 7/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/08</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/08</u>
Governmental Activities						
Bonds payable	\$ 13,371	\$ -	\$ (1,346)	\$ 12,025	\$ (1,333)	\$ 10,692
Accrued employee benefits	<u>584</u>	<u>95</u>	<u>-</u>	<u>679</u>	<u>(34)</u>	<u>645</u>
Total	\$ <u>13,955</u>	\$ <u>95</u>	\$ <u>(1,346)</u>	\$ <u>12,704</u>	\$ <u>(1,367)</u>	\$ <u>11,337</u>
Business-Type Activities						
Bonds payable	\$ 19,755	\$ -	\$ (1,225)	\$ 18,530	\$ (1,231)	\$ 17,299
Accrued employee benefits	<u>89</u>	<u>2</u>	<u>-</u>	<u>91</u>	<u>-</u>	<u>91</u>
Total	\$ <u>19,844</u>	\$ <u>2</u>	\$ <u>(1,225)</u>	\$ <u>18,621</u>	\$ <u>(1,231)</u>	\$ <u>17,390</u>

D. Advance and Current Refundings

Prior Year

In prior years, the Town has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2018. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town's balance sheet. As of June 30, 2008, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$ 13,965,000.

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 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.

The following types of reserves are reported at June 30, 2008:

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

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

Reserved for Debt Service - Represents the amount of fund balance appropriated to be used for debt service expenditures in the subsequent year budget.

15. **Subsequent Events**

A. Investments

During September, 2008 through January, 2009, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization’s investments.

B. Debt

Subsequent to June 30, 2008, the Town paid off the outstanding bond anticipation note and incurred the following additional long-term debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation	\$ 8,789,000	4.00 - 4.50%	07/29/08	02/01/28

16. 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.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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.

17. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Amesbury Contributory Retirement System (ACRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the ACRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the ACRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The ACRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	223
Terminated plan members entitled to but not yet receiving benefits	85
Active plan members	<u>292</u>
Total	<u>600</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1999	\$ 940,888	100%
2000	1,331,528	100%
2001	1,441,554	100%
2002	1,497,495	100%
2003	1,813,285	100%
2004	1,960,887	100%
2005	1,885,653	100%
2006	2,016,340	100%
2007	2,103,039	100%
2008	2,615,125	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments – Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Amesbury Contributory Retirement System’s most recent valuation.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/08	\$ 39,214,087	\$ 60,053,154	\$ 20,839,067	65.3%	\$ 11,374,648	183.2%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 20.8 million was calculated. The actuarial assumptions included (a) 8.25 % investment rate of return and (b) a projected salary increase of 4.00 % per year. Liabilities for cost of living increases have been assumed at an annual increase of 3 %, on the first \$12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2007, the unfunded actuarially accrued liability is being amortized over 17 years using an asset smoothing method.

E. 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.

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2008, the Commonwealth of Massachusetts contributed \$ 3,326,968 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

18. Post-Employment Health Care and Life Insurance Benefits

In addition to the pension benefits described in a previous note, the Town provides post-employment health care and life insurance benefits, in accordance with Chapter 32B of Massachusetts General Laws, to participating retirees. Presently the Town finances these benefits on the pay-as-you-go basis and does not contribute to a qualified plan (trust) as defined by *GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plan*. The number of participants currently eligible to receive benefits and costs of benefits for retirees, their dependents, or their survivors for year ended June 30, 2008 was not available.

GASB Statement No. 45, Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions is effective June 30, 2009.

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

19. 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.

TOWN AMESBURY, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/08	\$ 39,214,087	\$ 60,053,154	\$ 20,839,067	65%	\$ 11,374,648	183%
01/01/06	\$ 31,892,926	\$ 56,634,407	\$ 24,741,481	56%	\$ 11,652,440	212%
01/01/04	\$ 27,735,259	\$ 47,405,492	\$ 19,670,233	59%	\$ 10,572,920	186%
01/01/03	\$ 23,420,773	\$ 43,172,723 *	\$ 19,751,950	54%	\$ 10,873,793	182%
01/01/02	\$ 25,271,096	\$ 40,814,053	\$ 15,542,957	62%	\$ 10,380,709	150%
01/01/01	\$ 26,423,203	\$ 33,559,596 *	\$ 7,136,393	79%	\$ 10,111,418	71%
01/01/00	\$ 26,456,262	\$ 32,666,646 *	\$ 6,210,384	81%	\$ 9,584,283	65%
01/01/99	\$ 22,632,257	\$ 31,623,381	\$ 8,991,124	72%	\$ 9,084,628	99%
01/01/98	\$ 19,442,070	\$ 26,500,886	\$ 7,058,816	73%	\$ 7,165,112	99%

See Independent Auditors' Report.

* = Estimated amounts

TOWN OF AMESBURY, MASSACHUSETTS

Schedule of Revenues and Expenditures,
and Other Uses - Budget and Actual
Sewer Enterprise Fund

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ 2,808,129	\$ 2,477,798	\$ (330,331)
Transfer in	<u>-</u>	<u>38,995</u>	<u>38,995</u>
Total Revenues	2,808,129	2,516,793	(291,336)
Expenditures:			
Personnel services	482,207	483,306	(1,099)
Supplies and materials	1,995,096	1,970,814	24,282
Capital outlay	150,000	36,120	113,880
Other uses	<u>180,826</u>	<u>180,826</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,808,129</u>	<u>2,671,066</u>	<u>137,063</u>
Excess of Revenues over Expenditures and Other Uses	\$ <u><u>-</u></u>	\$ <u><u>(154,273)</u></u>	\$ <u><u>(154,273)</u></u>

See Independent Auditors' report.

TOWN OF AMESBURY, MASSACHUSETTS

Schedule of Revenues and Expenditures,
and Other Uses - Budget and Actual
Water Enterprise Fund

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ 2,732,392	\$ 2,602,874	\$ (129,518)
Total Revenues	<u>2,732,392</u>	<u>2,602,874</u>	<u>(129,518)</u>
Expenditures:			
Personnel services	652,071	667,764	(15,693)
Supplies and materials	1,822,484	1,786,362	36,122
Capital outlay	189,000	98,431	90,569
Other uses	<u>68,837</u>	<u>68,837</u>	<u>-</u>
Total Expenditures and Other Uses	<u>2,732,392</u>	<u>2,621,394</u>	<u>110,998</u>
Excess of Revenues over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ (18,520)</u>	<u>\$ (18,520)</u>

See Independent Auditors' report.