

TOWN OF LYNNFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Lynnfield, 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 Lynnfield, Massachusetts, as of and for the year ended June 30, 2007 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Lynnfield'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 Lynnfield, as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management

Additional Offices:

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

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2008 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Lynnfield's 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, education, public works, health and human services, culture and recreation, employee benefits, interest on debt, and intergovernmental assessments. The business-type activity includes Golf Course 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 funds 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 funds balance sheet and the governmental funds 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 the Town's Golf Course 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 information for the Golf Course operation, which is considered to be a major fund.

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 the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 63,575,849 (i.e., net assets), a change of \$ (1,456,013) in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$ 10,389,721, a change of \$ 265,877 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 962,931, a change of \$ 275,689 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 28,086,175, a change of \$ (2,994,900) in comparison with 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 13,031	\$ 13,821	\$ 78	\$ 159	\$ 13,109	\$ 13,980
Capital assets	<u>77,605</u>	<u>79,173</u>	<u>12,102</u>	<u>12,114</u>	<u>89,707</u>	<u>91,287</u>
Total assets	90,636	92,994	12,180	12,273	102,816	105,267
Long-term liabilities outstanding	23,517	23,825	2,885	-	26,402	23,825
Other liabilities	<u>4,453</u>	<u>5,138</u>	<u>8,386</u>	<u>11,273</u>	<u>12,839</u>	<u>16,411</u>
Total liabilities	27,970	28,963	11,271	11,273	39,241	40,236
Net assets:						
Invested in capital assets, net	52,950	54,036	1,002	1,014	53,952	55,050
Restricted	8,564	9,328	21	100	8,585	9,428
Unrestricted	<u>1,152</u>	<u>667</u>	<u>(114)</u>	<u>(114)</u>	<u>1,038</u>	<u>553</u>
Total net assets	\$ <u>62,666</u>	\$ <u>64,031</u>	\$ <u>909</u>	\$ <u>1,000</u>	\$ <u>63,575</u>	\$ <u>65,031</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,210	\$ 3,086	\$ 537	\$ 541	\$ 3,747	\$ 3,627
Operating grants and contributions	7,491	6,371	-	-	7,491	6,371
Capital grants and contributions	353	533	-	-	353	533
General revenues:						
Property taxes	24,196	23,432	-	-	24,196	23,432
Excises	2,000	1,996	-	-	2,000	1,996
Penalties and interest on taxes	359	380	-	-	359	380
Grants and contributions not restricted to specific programs	1,399	26,203	-	1,000	1,399	27,203
Investment income	252	177	1	55	253	232
Other	<u>20</u>	<u>395</u>	<u>29</u>	<u>100</u>	<u>49</u>	<u>495</u>
Total revenues	<u>39,280</u>	<u>62,573</u>	<u>567</u>	<u>1,696</u>	<u>39,847</u>	<u>64,269</u>
Expenses:						
General government	1,703	1,467	-	-	1,703	1,467
Public safety	3,563	3,659	-	-	3,563	3,659
Education	24,221	21,814	-	-	24,221	21,814
Public works	5,048	4,770	-	-	5,048	4,770
Health & human services	305	266	-	-	305	266
Culture and recreation	713	681	-	-	713	681
Employee benefits	3,632	4,380	-	-	3,632	4,380
Interest on long-term debt	1,020	1,632	-	-	1,020	1,632
Intergovernmental	287	282	-	-	287	282
Golf course	-	-	833	926	833	926
Total expenses	<u>40,492</u>	<u>38,951</u>	<u>833</u>	<u>926</u>	<u>41,325</u>	<u>39,877</u>
Change in net assets before transfers and permanent fund contributions	(1,212)	23,622	(266)	770	(1,478)	24,392
Transfers in (out)	(175)	(106)	175	106	-	-
Permanent fund contributions	<u>22</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>23</u>
Change in net assets	(1,365)	23,539	(91)	876	(1,456)	24,415
Net assets - beginning of year (as restated)	<u>64,031</u>	<u>40,492</u>	<u>1,000</u>	<u>124</u>	<u>65,031</u>	<u>40,616</u>
Net assets - end of year	<u>\$ 62,666</u>	<u>\$ 64,031</u>	<u>\$ 909</u>	<u>\$ 1,000</u>	<u>\$ 63,575</u>	<u>\$ 65,031</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 \$ 63,575,849, a change of \$ (1,456,013) from the prior year.

A portion of net assets, \$ 53,951,449, reflects our investment in capital assets (e.g., land and construction in progress, buildings and improvements, machinery, equipment and furnishings), 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.

In fiscal year 2007, as required by the provisions of GASB Statement 34, the Town retroactively reported all major general government infrastructure fixed assets that were acquired or significantly improved since fiscal year 1980. The Town's beginning net assets have been restated to reflect the effects of this change. See Note 8 for additional detail.

An additional portion of net assets \$ 8,586,120 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 1,038,280 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 \$ (1,365,420). Key elements of this change are as follows:

- General fund change of \$ 445,395, which is further discussed in the governmental funds section below.
- Building Reserve Trust Fund transfers out exceeding revenues of \$ (1,714,743).
- EMS fund revenues in excess of expenditures of \$ 100,867.
- Depreciation expense (not budgeted for) in excess of principal debt expense (included in budget) of \$ (1,182,560).
- Nonmajor funds change of \$ 606,392 (accrual basis).
- Other revenue and expense accruals of \$ 379,229.

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (90,593). Key elements of this change are as follows:

Golf Course operations	\$ <u>(90,593)</u>
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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 combined ending fund balance of \$ 10,389,721, a change of \$ 265,877 in comparison with the prior year. Key elements of this change are as follows:

- General fund change of \$ 445,395, which is further discussed in the general fund paragraphs below.
- Building Reserve Trust Fund transfers out exceeding revenues of \$ (1,714,743).
- EMS fund revenues in excess of expenditures of \$ 100,867.
- Nonmajor funds change in fund balance of \$ 1,434,358.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 962,931, while total fund balance was \$ 1,311,462. 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 2.6 percent of total general fund expenditures, while total fund balance represents 3.6 percent of that same amount.

The fund balance of the general fund changed by \$ 445,395 during the current fiscal year. Key factors in this change are as follows:

- Use of surplus funds (free cash and overlay surplus) for the current year budget of \$ (692,868).
- Non-property tax revenues in excess of budget of \$ 458,691.
- Actual property tax collections in excess of budget of \$ 14,282.
- Expenditures against current year appropriation were less than anticipated by \$ 330,228.
- Current year expenditures funded by a previous year budget of \$ (103,590).

- Current year expenditure carryforwards to be expended in a subsequent year of \$ 271,531.
- Other adjustments of \$ 167,121.

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 Golf Course enterprise fund at the end of the year amounted to \$ (114,125), a change of \$ 211 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 \$ 39,000. This appropriation increase for school health insurance costs was funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 89,707,128 (net of accumulated depreciation), a change of \$ (1,580,194) from the prior year. This investment in capital assets includes land and construction in progress, buildings and improvements, machinery, equipment and furnishings, and infrastructure assets.

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

- \$ 121,280 for various road and sidewalk improvements.
- \$ 29,037 for the HVAC system at the library.
- \$ 91,674 for computers, furniture, and lockers for various schools.
- \$ 83,372 for the purchase of police vehicles.
- \$ 111,498 for the purchase of two school buses.
- \$ 217,140 for SCBA and other fire department equipment.
- \$ 107,702 for truck replacements for the highway department.
- \$ 442,808 for various other projects and equipment.
- Total current year depreciation expense of \$ (2,784,705).

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 28,086,175, 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 Lynnfield'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 Town Accountant
Town of Lynnfield, Massachusetts
55 Summer Street
Lynnfield, Massachusetts 01940

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 6,949,398	\$ 78,631	\$ 7,028,029
Investments	5,308,437	-	5,308,437
Receivables, net of allowance for uncollectibles:			
Property taxes	442,364	-	442,364
Excises	156,482	-	156,482
User fees	99,938	-	99,938
Betterments	4,911	-	4,911
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	12,185	-	12,185
Betterments	57,113	-	57,113
Land and construction in progress	6,439,504	11,643,093	18,082,597
Capital assets, net of accumulated depreciation	<u>71,165,810</u>	<u>458,721</u>	<u>71,624,531</u>
TOTAL ASSETS	90,636,142	12,180,445	102,816,587
LIABILITIES			
Current:			
Warrants and accounts payable	551,021	14,710	565,731
Deferred revenues	62,024	-	62,024
Accrued liabilities	1,379,317	153,158	1,532,475
Anticipation notes payable	-	8,100,000	8,100,000
Other current liabilities	461,990	-	461,990
Current portion of long-term liabilities:			
Bonds payable	1,867,099	118,000	1,985,099
Other liabilities	131,833	-	131,833
Noncurrent:			
Bonds payable, net of current portion	23,216,076	2,885,000	26,101,076
Other liabilities	<u>300,510</u>	<u>-</u>	<u>300,510</u>
TOTAL LIABILITIES	27,969,870	11,270,868	39,240,738
NET ASSETS			
Invested in capital assets, net of related debt	52,949,635	1,001,814	53,951,449
Restricted for:			
Grants and other statutory restrictions	7,801,344	21,888	7,823,232
Permanent funds:			
Expendable	74,188	-	74,188
Nonexpendable	688,700	-	688,700
Unrestricted	<u>1,152,405</u>	<u>(114,125)</u>	<u>1,038,280</u>
TOTAL NET ASSETS	<u>\$ 62,666,272</u>	<u>\$ 909,577</u>	<u>\$ 63,575,849</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

	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	\$ 1,702,917	\$ 474,873	\$ 323,484	\$ (904,560)	\$ -	\$ (904,560)
Public safety	3,562,934	847,457	112,251	(2,415,013)	-	(2,415,013)
Education	24,220,782	1,679,336	6,872,325	(15,669,121)	-	(15,669,121)
Public works	5,048,459	98,545	105,623	(4,679,641)	-	(4,679,641)
Health and human services	305,629	55,997	46,582	(203,050)	-	(203,050)
Culture and recreation	712,921	53,397	-	(628,841)	-	(628,841)
Employee benefits	3,631,863	-	-	(3,631,863)	-	(3,631,863)
Interest	1,019,813	-	-	(1,019,813)	-	(1,019,813)
Intergovernmental	287,380	-	-	(287,380)	-	(287,380)
Total Governmental Activities	40,492,698	3,209,605	7,490,948	(29,439,282)	-	(29,439,282)
Business-Type Activities:						
Golf Course	833,135	537,472	-	-	(295,663)	(295,663)
Total Business-Type Activities	833,135	537,472	-	-	(295,663)	(295,663)
Total	\$ 41,325,833	\$ 3,747,077	\$ 7,490,948	(29,439,282)	(295,663)	(29,734,945)
General Revenues:						
Property taxes				24,195,995	-	24,195,995
Excises				2,000,432	-	2,000,432
Penalties, interest and other taxes				359,543	-	359,543
Grants and contributions not restricted to specific programs				1,398,534	-	1,398,534
Investment income				252,189	1,547	253,736
Other				20,119	28,523	48,642
Transfers, net				(175,000)	175,000	-
Permanent fund contributions				22,050	-	22,050
Total general revenues, transfers, and contributions				28,073,862	205,070	28,278,932
Change in Net Assets				(1,365,420)	(90,593)	(1,456,013)
Net Assets:						
Beginning of year, as restated				64,031,692	1,000,170	65,031,862
End of year				\$ 62,666,272	\$ 909,577	\$ 63,575,849

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

ASSETS

	General	Building Reserve Fund	Emergency Medical Services	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 3,042,981	\$ 679,564	\$ 246,340	\$ 2,980,513	\$ 6,949,398
Investments	-	3,562,437	-	1,746,000	5,308,437
Receivables:					
Property taxes	513,427	-	-	-	513,427
Excises	195,603	-	-	-	195,603
Departmental and other	-	-	99,938	62,024	161,962
TOTAL ASSETS	\$ 3,752,011	\$ 4,242,001	\$ 346,278	\$ 4,788,537	\$ 13,128,827

LIABILITIES AND FUND BALANCES

Liabilities:					
Warrants payable	\$ 414,426	\$ -	\$ 38,634	\$ 97,961	\$ 551,021
Deferred revenues	536,424	-	99,938	62,024	698,386
Accrued liabilities	1,027,709	-	-	-	1,027,709
Other liabilities	461,990	-	-	-	461,990
TOTAL LIABILITIES	2,440,549	-	138,572	159,985	2,739,106
Fund Balances:					
Reserved for:					
Encumbrances	271,531	-	30,000	-	301,531
Expenditures	77,000	-	-	-	77,000
Perpetual (nonexpendable) permanent funds	-	-	-	688,700	688,700
Unreserved:					
Undesignated, reported in:					
General fund	962,931	-	-	-	962,931
Special revenue funds	-	4,242,001	177,706	3,559,343	7,979,050
Capital project funds	-	-	-	306,321	306,321
Permanent funds	-	-	-	74,188	74,188
TOTAL FUND BALANCES	1,311,462	4,242,001	207,706	4,628,552	10,389,721
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,752,011	\$ 4,242,001	\$ 346,278	\$ 4,788,537	\$ 13,128,827

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

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

JUNE 30, 2007

Total governmental fund balances	\$ 10,389,721
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	77,605,314
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	538,363
<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.	(351,608)
<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>(25,515,518)</u>
Net assets of governmental activities	\$ <u>62,666,272</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	General	Building Reserve Fund	Emergency Medical Services	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 24,159,678	\$ -	\$ -	\$ -	\$ 24,159,678
Excises	2,084,546	-	-	-	2,084,546
Penalties, interest and other taxes	88,564	-	-	-	88,564
Payments in lieu of taxes	270,979	-	-	-	270,979
Charges for services	441,090	-	472,057	1,839,660	2,752,807
Intergovernmental	7,036,429	-	-	1,708,402	8,744,831
Licenses and permits	383,076	-	-	-	383,076
Fines and forfeitures	106,830	-	-	-	106,830
Investment income	206,955	171,923	5,314	81,973	466,165
Miscellaneous	4,290	-	-	321,417	325,707
Total Revenues	34,782,437	171,923	477,371	3,951,452	39,383,183
Expenditures:					
Current:					
General government	1,367,899	-	-	319,870	1,687,769
Public safety	3,089,537	-	376,504	226,833	3,692,874
Education	20,111,474	-	-	2,439,289	22,550,763
Public works	4,782,329	-	-	291,265	5,073,594
Health and human services	217,155	-	-	117,403	334,558
Culture and recreation	598,666	-	-	57,805	656,471
Employee benefits	3,631,863	-	-	-	3,631,863
Debt service	2,609,034	-	-	-	2,609,034
Intergovernmental	287,380	-	-	-	287,380
Total Expenditures	36,695,337	-	376,504	3,452,465	40,524,306
Excess (deficiency) of revenues over expenditures	(1,912,900)	171,923	100,867	498,987	(1,141,123)
Other Financing Sources (Uses):					
Bond proceeds	-	-	-	1,582,000	1,582,000
Transfers in	3,036,541	-	-	678,246	3,714,787
Transfers out	(678,246)	(1,886,666)	-	(1,324,875)	(3,889,787)
Total Other Financing Sources (Uses)	2,358,295	(1,886,666)	-	935,371	1,407,000
Change in fund balance	445,395	(1,714,743)	100,867	1,434,358	265,877
Fund Equity, at Beginning of Year, as restated	866,067	5,956,744	106,839	3,194,194	10,123,844
Fund Equity, at End of Year	\$ 1,311,462	\$ 4,242,001	\$ 207,706	\$ 4,628,552	\$ 10,389,721

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 265,877
<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: 	
Capital outlay purchases	1,204,511
Depreciation	(2,772,660)
<ul style="list-style-type: none"> 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. 	
	(80,905)
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Issuance of debt	(1,582,000)
Repayments of debt	1,590,100
<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. 	
	(879)
<ul style="list-style-type: none"> 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. 	
	<u>10,536</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(1,365,420)</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues and Other Sources:				
Property taxes	\$ 24,145,391	\$ 24,145,391	\$ 24,145,391	\$ -
Excise	2,000,000	2,000,000	2,084,551	84,551
Penalties, interest and other taxes	379,000	379,000	359,543	(19,457)
Charges for services	383,716	383,716	441,090	57,374
Intergovernmental	3,694,266	3,694,266	3,949,338	255,072
Licenses and permits	375,000	375,000	383,076	8,076
Fines and forfeits	105,000	105,000	106,830	1,830
Investment income	140,000	140,000	206,955	66,955
Other	-	-	4,290	4,290
Transfers in	3,036,541	3,036,541	3,036,541	-
Use of free cash	593,868	632,868	632,868	-
Use of overlay surplus	60,000	60,000	60,000	-
Total Revenues and Other Sources	34,912,782	34,951,782	35,410,473	458,691
Expenditures and Other Uses:				
General government	1,481,507	1,502,520	1,398,682	103,838
Public safety	3,232,620	3,252,747	3,105,016	147,731
Education	17,066,809	17,105,809	17,104,379	1,430
Public works	4,874,590	4,879,817	4,811,542	68,275
Health and human services	223,801	219,801	217,155	2,646
Culture and recreation	616,613	616,613	611,136	5,477
Debt service	2,647,168	2,647,168	2,646,444	724
Intergovernmental	286,220	286,220	287,380	(1,160)
Employee benefits	3,687,497	3,633,130	3,631,863	1,267
Other	141,711	141,711	141,711	-
Transfers out	654,246	666,246	666,246	-
Total Expenditures and Other Uses	34,912,782	34,951,782	34,621,554	330,228
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 788,919	\$ 788,919

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-type Activity Golf Course Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 78,631
Total current assets	78,631
Noncurrent:	
Land and construction in progress	11,643,093
Capital assets, net of accumulated depreciation	458,721
Total noncurrent assets	12,101,814
TOTAL ASSETS	12,180,445
<u>LIABILITIES</u>	
Current:	
Accounts payable	14,710
Accrued interest	153,158
Bond anticipation notes payable	8,100,000
Current portion of long-term liabilities:	
Bonds payable	118,000
Total current liabilities	8,385,868
Noncurrent:	
Bonds payable, net of current portion	2,885,000
Total noncurrent liabilities	2,885,000
TOTAL LIABILITIES	11,270,868
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	1,001,814
Restricted for debt service	21,888
Unrestricted	(114,125)
TOTAL NET ASSETS	\$ 909,577

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activity <u>Golf Course Fund</u>
Operating Revenues:	
Fees	\$ <u>537,472</u>
Total Operating Revenues	537,472
Operating Expenses:	
Salaries	195,859
Depreciation	12,045
Other	<u>130,938</u>
Total Operating Expenses	<u>338,842</u>
Operating Income (Loss)	198,630
Nonoperating Revenues (Expenses):	
Investment income	1,547
Debt premiums, net of issue costs	21,888
Interest on short-term debt	<u>(487,658)</u>
Total Nonoperating Revenues (Expenses), Net	<u>(464,223)</u>
Income before transfers	(265,593)
Transfers:	
Operating transfers in (out)	<u>175,000</u>
Change in Net Assets	(90,593)
Net Assets at Beginning of Year	<u>1,000,170</u>
Net Assets at End of Year	\$ <u><u>909,577</u></u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-type <u>Activity</u> Golf Course <u>Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 537,472
Payments to vendors and employees	<u>(332,244)</u>
Net Cash Provided By (Used For) Operating Activities	205,228
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfer from special revenue fund	<u>175,000</u>
Net Cash Provided By (Used For) Noncapital Financing Activities	175,000
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Bond proceeds	3,000
Bond premium, net of issue costs	21,888
Interest expense	<u>(487,658)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(462,770)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>1,547</u>
Net Cash Provided By (Used For) Investing Activities	<u>1,547</u>
Net Change in Cash and Short-Term Investments	(80,995)
Cash and Short-Term Investments, Beginning of Year	<u>159,626</u>
Cash and Short-Term Investments, End of Year	<u>\$ 78,631</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating income (loss)	\$ 198,630
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	12,045
Changes in assets and liabilities:	
Accounts payable	6,395
Accrued expenses	<u>(11,842)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 205,228</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>		
Cash and short term investments	\$ 188,809	\$ 315,109
Investments	6,675	-
Other assets	-	23,528
	<hr/>	<hr/>
Total Assets	195,484	338,637
 <u>LIABILITIES AND NET ASSETS</u>		
Warrants payable	-	15,468
Other liabilities	-	323,169
	<hr/>	<hr/>
Total Liabilities	-	338,637
 <u>NET ASSETS</u>		
Restricted for endowment	150,116	-
Unrestricted	45,368	-
	<hr/>	<hr/>
Total net assets held in trust	\$ <u>195,484</u>	\$ <u>-</u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Private Purpose <u>Trust Funds</u>
Additions:	
Contributions	\$ 1,120
Investment income	<u>8,818</u>
Total additions	9,938
Deductions:	
Scholarship awards	<u>2,750</u>
Total deductions	<u>2,750</u>
Net increase	7,188
Net assets:	
Beginning of year	<u>188,296</u>
End of year	<u><u>\$ 195,484</u></u>

See notes to financial statements.

TOWN OF LYNNFIELD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of 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 are normally 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 is 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 govern-

mental 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 *Building Reserve Fund* is a trust fund used to account for resources the Town has appropriated for future debt service

expenditures related to the town building projects, including the construction and renovation of schools, the senior center, and the DPW facilities.

- The *Emergency Medical Services Fund* is used to account for revenues and expenditures associated with providing emergency medical services to individuals within the Town of Lynnfield.

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 fund:

- The *Golf Course Fund* is used to account for all of the activity associated with the Town's golf course.

The private-purpose trust fund is used to account for trust arrangements, under which principal and investment income exclusively benefits 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 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 or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the trust funds consist of certificates of deposits and are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2007 tax levy reflected an excess capacity of \$ 6,478.

G. Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets are reported in the applicable governmental or business-type activities column 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 are 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 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund 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)	\$ 34,782,437	\$ 36,695,337
Other financing sources/uses (GAAP basis)	<u>3,036,541</u>	<u>678,246</u>
Subtotal (GAAP Basis)	37,818,978	37,373,583
Adjust tax revenue to accrual basis	(14,282)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(103,590)
Add end of year appropriation carryforwards to expenditures	-	271,531
Record raising of prior year snow and ice deficit	-	150,000
Recognize use of free cash as a funding source	632,868	-
Recognize use of overlay surplus as a funding source	60,000	-
To reverse net effect of non-budgeted audit adjustments		17,121
To reverse the effect of non-budgeted State contributions for teachers retirement	(3,087,091)	(3,087,091)
Budgetary basis	<u>\$ 35,410,473</u>	<u>\$ 34,621,554</u>

D. Excess of Expenditures Over Appropriations

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

Snow/ice deficit	\$ (75,000)
------------------	-------------

E. Deficit Fund Equity

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

Special Revenue

Highway Chapter 90	\$ (66,291)
Safe and Drug Free Grant	\$ (2,796)

The deficits in these funds will be eliminated through future departmental revenues and intergovernmental revenues.

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 to it. Massachusetts General Law, Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent 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." The Town's deposits are within this limitation.

As of June 30, 2007, \$ 2,733,460 of the Town's bank balance of \$ 4,709,500 was exposed to custodial credit risk as uninsured, uncollateralized, or collateral held by pledging bank's trust department not in the Town'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 investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment type of the Town (in thousands) .

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Certificates of deposit	\$ <u>5,315</u>	N/A	\$ <u>5,315</u>

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 does 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 as follows:

Certificates of Deposit:	
Eastern Bank	\$ <u>5,315,112</u>

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing 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>
Certificates of deposit	\$ <u>5,315</u>	\$ <u>5,315</u>	\$ <u>-</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. As of June 30, 2007, the Town has no investments that are exposed to 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, 2007 consist of the following:

Real Estate		
2007		\$ 374,437
Personal Property		
2007	\$ 2,840	
2006	<u>3,022</u>	
		5,862
Tax Liens		45,125
Deferred Taxes		85,844
Taxes in Litigation		<u>2,159</u>
Total		\$ <u>513,427</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 58,878
Excises	39,121

7. Departmental and Other Receivables

This balance represents charges billed for emergency medical services (net of estimated allowance for doubtful accounts), and charges due for unbilled special assessments.

8. Capital Assets

Capital asset activity for the year ended June 30, 2007 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	\$ 85,217	\$ 2,249	\$ -	\$ 87,466
Machinery, equipment, and furnishings	9,774	707	-	10,481
Infrastructure	<u>6,542</u>	<u>121</u>	<u>-</u>	<u>6,663</u>
Total capital assets, being depreciated	101,533	3,077	-	104,610
Less accumulated depreciation for:				
Buildings and improvements	(23,708)	(1,839)	-	(25,547)
Machinery, equipment, and furnishings	(5,428)	(768)	-	(6,196)
Infrastructure	<u>(1,536)</u>	<u>(165)</u>	<u>-</u>	<u>(1,701)</u>
Total accumulated depreciation	<u>(30,672)</u>	<u>(2,772)</u>	<u>-</u>	<u>(33,444)</u>
Total capital assets, being depreciated, net	70,861	305	-	71,166
Capital assets, not being depreciated:				
Land	6,223	139	-	6,362
Construction in progress	<u>2,089</u>	<u>61</u>	<u>(2,073)</u>	<u>77</u>
Total capital assets, not being depreciated	<u>8,312</u>	<u>200</u>	<u>(2,073)</u>	<u>6,439</u>
Governmental activities capital assets, net (as restated)	\$ <u>79,173</u>	\$ <u>505</u>	\$ <u>(2,073)</u>	\$ <u>77,605</u>

Note: The beginning capital asset balances for Governmental Activities have been restated to reflect the Town's retroactive capitalization of major general government infrastructure fixed assets, as required by GASB Statement 34.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ <u>482</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>482</u>
Total capital assets, being depreciated	482	-	-	482
Less accumulated depreciation for:				
Buildings and improvements	(<u>11</u>)	(<u>12</u>)	<u>-</u>	(<u>23</u>)
Total accumulated depreciation	(<u>11</u>)	(<u>12</u>)	<u>-</u>	(<u>23</u>)
Total capital assets, being depreciated, net	471	(12)	-	459
Capital assets, not being depreciated:				
Land	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>11,643</u>
Total capital assets, not being depreciated	<u>11,643</u>	<u>-</u>	<u>-</u>	<u>11,643</u>
Business-type activities capital assets, net	\$ <u>12,114</u>	\$ <u>(12)</u>	\$ <u>-</u>	\$ <u>12,102</u>

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

Governmental Activities:	
General government	\$ 37
Public safety	197
Education	1,946
Public works	405
Health and human services	57
Culture and recreation	<u>130</u>
Total depreciation expense - governmental activities	\$ <u>2,772</u>
Business-Type Activities:	
Golf Course	\$ <u>12</u>
Total depreciation expense - business-type activities	\$ <u>12</u>

9. **Warrants and Accounts Payable**

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

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, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

Governmental activities report *deferred revenue* in connection with receivables for unbilled special assessments.

11. **Accrued Liabilities**

Accrued liabilities consist of amounts accrued at June 30, 2007 for fiscal 2007 teacher summer payroll, as well as interest accrued on outstanding bonds and bond anticipation notes.

12. **Anticipation Notes Payable**

The Town had the following notes outstanding at June 30, 2007:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2007</u>
Bond anticipation	4.00%	03/01/07	02/28/08	\$ <u>8,100,000</u>
Total				\$ <u>8,100,000</u>

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

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
FY05 Capital Articles	\$ 1,316	\$ -	\$ (1,316)	\$ -
FY06 Capital Articles	254	-	(254)	-
Squad One	24	-	(24)	-
Golf Course	<u>11,100</u>	<u>8,100</u>	<u>(11,100)</u>	<u>8,100</u>
Total	\$ <u>12,694</u>	\$ <u>8,100</u>	\$ <u>(12,694)</u>	\$ <u>8,100</u>

13. Other Current Liabilities

This balance consists primarily of various payroll withholdings.

14. 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 currently outstanding are as follows:

	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2007</u>
<u>Governmental Activities:</u>			
Town buildings (defeased debt)	01/01/10	4.00 - 4.250	\$ 630,000
Septic (MWPAT)	08/01/18	-	121,175
School bond	03/01/23	2.00 - 5.000	10,400,000
Town Bldg Projects	07/01/24	2.00 - 5.000	12,350,000
Capital Articles/Squad One	02/15/25	4.00 - 4.375	<u>1,582,000</u>
Total Governmental Activities:			\$ <u>25,083,175</u>

	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2007</u>
<u>Business-Type Activities:</u>			
Golf Course	02/15/25	4.00 - 4.375	\$ <u>3,003,000</u>
Total Business-Type Activities:			\$ <u>3,003,000</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,867,099	\$ 994,250	\$ 2,861,349
2009	1,860,100	935,828	2,795,928
2010	1,800,100	874,519	2,674,619
2011	1,490,100	811,126	2,301,226
2012	1,485,099	756,800	2,241,899
2013 - 2017	7,205,487	2,942,799	10,148,286
2018 - 2022	6,950,190	1,469,352	8,419,542
2023 - 2025	<u>2,425,000</u>	<u>165,150</u>	<u>2,590,150</u>
Total	\$ <u>25,083,175</u>	\$ <u>8,949,824</u>	\$ <u>34,032,999</u>

The general fund has been designated as the sole source to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2007.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 118,000	\$ 123,513	\$ 241,513
2009	120,000	118,793	238,793
2010	125,000	113,992	238,992
2011	130,000	108,993	238,993
2012	135,000	103,793	238,793
2013 - 2017	775,000	427,062	1,202,062
2018 - 2022	945,000	251,222	1,196,222
2023 - 2025	<u>655,000</u>	<u>54,325</u>	<u>709,325</u>
Total	\$ <u>3,003,000</u>	\$ <u>1,301,693</u>	\$ <u>4,304,693</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance 7/1/06	Additions	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
<u>Governmental Activities</u>						
Bonds payable	\$ 25,091	\$ 1,582	\$ (1,590)	\$ 25,083	\$ (1,867)	\$ 23,216
Other:						
Accrued employee benefits	443	-	(11)	432	(132)	300
Totals	\$ 25,534	\$ 1,582	\$ (1,601)	\$ 25,515	\$ (1,999)	\$ 23,516
 <u>Business-Type Activities</u>						
Bonds payable	\$ -	\$ 3,003	\$ -	\$ 3,003	\$ (118)	\$ 2,885
Totals	\$ -	\$ 3,003	\$ -	\$ 3,003	\$ (118)	\$ 2,885

15. 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.

16. 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, 2007:

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

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

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

17. Commitments and Contingencies

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

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

18. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits is included in the total cost of benefits for both active and retired employees. In fiscal 2007, there were 221 participants eligible to receive benefits, and the cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2007 was \$ 1,135,659.

19. Pension Plan

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

A. Plan Description

The Town contributes to the Essex County 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, to the State legislature. The System issues a publicly available financial report which can be obtained through the Essex County Retirement System at 36 Federal Street, Salem, MA 01970.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2007, 2006 and 2005 were \$ 1,225,678, \$ 1,045,180, and \$ 820,993, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute. All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

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

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

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

The Town's current year covered payroll for teachers and administrators was \$ 11,441,437.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 3,087,091 from the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Risk Management

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

21. Beginning Fund Balance Reclassification

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

	Fund Equity June 30, 2006 (as previously reported)	Reclassification	Fund Equity June 30, 2006 (as restated)
Nonmajor Funds	\$ 3,098,528	\$ 95,666	\$ 3,194,194
FY05 Capital Plan	(856,756)	856,756	-
Town Building Projects	<u>952,422</u>	<u>(952,422)</u>	<u>-</u>
Total	\$ <u>3,194,194</u>	\$ <u>-</u>	\$ <u>3,194,194</u>

22. Beginning Net Assets Restatement

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

Government-Wide Financial Statements:

	Governmental Activities
As previously reported	\$ 59,652,049
Retroactive reporting of infrastructure fixed assets	<u>4,379,643</u>
As restated	\$ <u>64,031,692</u>