

TOWN OF WINCHESTER, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TOWN OF WINCHESTER, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements.....	14
Statement of net assets	15
Statement of activities	16
Governmental funds – balance sheet	18
Governmental funds – statement of revenues, expenditures and changes in fund balances	20
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets	22
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	23
Proprietary fund – statement of net assets.....	24
Proprietary fund – statement of revenues, expenses and changes in net assets.....	25
Proprietary fund – statement of cash flows	26
Fiduciary funds – statement of fiduciary net assets.....	27
Fiduciary funds – statement of changes in fiduciary net assets	28
Notes to basic financial statements	29
Required Supplementary Information	61
General fund – schedule of revenues, expenditures and changes in fund balance – budget and actual	62
Pension plan schedules.....	64
Schedule of funding progress	64
Schedule of employer contributions	64
Town share of system ARC.....	64
Notes to Required Supplementary Information.....	65

This page left intentionally blank.

Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Winchester, 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 Winchester, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Winchester Contributory Retirement System, which is as of and for the fiscal 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's management. Our responsibility is to express opinions 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 Winchester, Massachusetts, as of June 30, 2008 (except for the Winchester Contributory Retirement System, which is as of December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2009, on our consideration of the Town of Winchester, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 13) and the budgetary comparison for the general fund and certain pension information (located on pages 61 through 65, respectively) 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 supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Sullivan, R. & Co., LLC". The signature is written in a cursive, flowing style.

February 13, 2009

Management's Discussion and Analysis

As management of the Town of Winchester, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$152,606,034 (net assets). Of this amount, \$28,095,204 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$4,083,879.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$17,492,014, a decrease of \$6,983,175 in comparison with the prior year. Excluding the Hamilton Farm purchase capital projects fund (major fund), \$26,297,661 represents unreserved fund balance. The Hamilton Farm purchase capital projects fund deficit totaling \$14,086,022 is anticipated to be funded by the sale of the property in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$6,410,299, or 7.8 percent of total general fund expenditures and transfers out. In the prior year, undesignated fund balance for the general fund totaled \$6,092,261.
- The Town's total outstanding bonded debt increased by \$1,899,735 during the fiscal year. The Town issued \$5,778,000 of new debt and retired \$4,012,526 of existing debt during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide and enterprise fund financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Town's non-fiduciary 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 of the Town 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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the Town 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*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's water and sewer operations.

The government-wide financial statements can be found on pages 15-17 of this report.

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 expendable resources, as well as on balances of expendable 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 effect 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.

The Town maintains 388 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), school construction (capital projects) and Hamilton Farm purchase (capital projects), funds, each of which are considered to be major funds. Data from the other 384 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-23 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer operations, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

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 programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the Town's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 27-28 of this report.

Notes to the basic 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. The notes to the financial statements can be found on pages 29-59 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 61-65.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$152,606,034 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets.....	\$ 38,388,919	\$ 32,898,124	\$ 5,549,592	\$ 5,097,031	\$ 43,938,511	\$ 37,995,155
Noncurrent assets (excluding capital assets).....	21,008,941	7,789,962	-	-	21,008,941	7,789,962
Capital assets (net).....	<u>142,362,677</u>	<u>142,428,088</u>	<u>17,432,731</u>	<u>17,578,236</u>	<u>159,795,408</u>	<u>160,006,324</u>
Total assets.....	<u>201,760,537</u>	<u>183,116,174</u>	<u>22,982,323</u>	<u>22,675,267</u>	<u>224,742,860</u>	<u>205,791,441</u>
Liabilities						
Current liabilities (excluding debt).....	4,931,671	2,712,956	334,287	302,088	5,265,958	3,015,044
Noncurrent liabilities (excluding debt).....	802,199	729,841	36,546	74,349	838,745	804,190
Current debt.....	16,918,055	6,392,171	923,209	1,028,757	17,841,264	7,420,928
Noncurrent debt.....	<u>38,373,649</u>	<u>35,288,705</u>	<u>9,817,210</u>	<u>10,740,419</u>	<u>48,190,859</u>	<u>46,029,124</u>
Total liabilities.....	<u>61,025,574</u>	<u>45,123,673</u>	<u>11,111,252</u>	<u>12,145,613</u>	<u>72,136,826</u>	<u>57,269,286</u>
Net Assets						
Invested in capital assets (net of related debt).....	112,318,823	108,941,864	8,360,401	5,809,060	120,679,224	114,750,924
Restricted.....	3,831,606	3,550,324	-	-	3,831,606	3,550,324
Unrestricted.....	<u>24,584,534</u>	<u>25,500,313</u>	<u>3,510,670</u>	<u>4,720,594</u>	<u>28,095,204</u>	<u>30,220,907</u>
Total net assets.....	<u>\$ 140,734,963</u>	<u>\$ 137,992,501</u>	<u>\$ 11,871,071</u>	<u>\$ 10,529,654</u>	<u>\$ 152,606,034</u>	<u>\$ 148,522,155</u>

The largest portion of the Town's net assets (79.1%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its 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 the Town's net assets (2.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (18.4% or \$28,095,204) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$24,584,534 may be used to support governmental activities and \$3,510,670 may be used to support business-type activities.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2008, the Town's total net assets increased by \$4,083,879, compared to an increase of \$2,346,845 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 7,886,493	\$ 7,451,875	\$ 5,680,042	\$ 4,222,275	\$ 13,566,535	\$ 11,674,150
Operating grants and contributions.....	15,851,998	14,411,598	143,602	452,367	15,995,600	14,863,965
Capital grants and contributions.....	570,705	451,699	-	-	570,705	451,699
<i>General Revenues:</i>						
Real estate and personal property taxes.....	57,214,582	54,596,283	-	-	57,214,582	54,596,283
Motor vehicle and other excise taxes.....	2,956,311	2,920,241	-	-	2,956,311	2,920,241
Penalties and interest on taxes.....	156,896	176,290	-	-	156,896	176,290
Payments in lieu of taxes.....	30,000	35,343	-	-	30,000	35,343
Grants and contributions not restricted to specific programs.....	2,403,824	1,997,888	-	-	2,403,824	1,997,888
Unrestricted investment income.....	1,358,469	1,060,106	-	-	1,358,469	1,060,106
Gain on sale of capital assets.....	-	1,645,474	-	-	-	1,645,474
Total revenues.....	88,429,278	84,746,797	5,823,644	4,674,642	94,252,922	89,421,439
Expenses						
General government.....	6,424,487	6,709,572	-	-	6,424,487	6,709,572
Public safety.....	10,979,897	10,608,761	-	-	10,979,897	10,608,761
Education.....	48,229,521	46,817,216	-	-	48,229,521	46,817,216
Public works.....	8,879,559	7,653,841	-	-	8,879,559	7,653,841
Health and human services.....	1,268,676	1,524,164	-	-	1,268,676	1,524,164
Culture and recreation.....	4,223,893	3,665,765	-	-	4,223,893	3,665,765
Debt service - interest.....	2,326,165	1,989,696	-	-	2,326,165	1,989,696
Water/Sewer.....	-	-	7,836,845	8,105,579	7,836,845	8,105,579
Total expenses.....	82,332,198	78,969,015	7,836,845	8,105,579	90,169,043	87,074,594
Change in net assets before transfers.....	6,097,080	5,777,782	(2,013,201)	(3,430,937)	4,083,879	2,346,845
Transfers, net.....	(3,354,618)	(3,493,429)	3,354,618	3,493,429	-	-
Change in net assets.....	2,742,462	2,284,353	1,341,417	62,492	4,083,879	2,346,845
Net assets - beginning of year (as restated).....	137,992,501	135,708,148	10,529,654	10,467,162	148,522,155	146,175,310
Net assets - end of year.....	\$ 140,734,963	\$ 137,992,501	\$ 11,871,071	\$ 10,529,654	\$ 152,606,034	\$ 148,522,155

Governmental activities increased the Town's net assets by \$2,742,462, accounting for 67.0% of the total growth in net assets. In the prior year, governmental activities increased the Town's net assets by \$2,284,353.

Business-type activities increased the Town's net assets by \$1,341,417, accounting for 33.0% of the total growth in net assets. In the prior year, business-type activities increased the Town's net assets by \$62,492. The key element of this change is a 10.3% increase in water and sewer consumption.

Fund Financial Statement Analysis

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's 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.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$17,492,014, a decrease of \$6,983,175 in comparison with the prior year. Excluding the Hamilton Farm purchase capital projects fund (major fund), \$24,700,298 represents undesignated fund balance of the general fund, special revenue funds, school construction and nonmajor capital projects funds and permanent funds. The Hamilton Farm purchase capital projects fund (major fund) deficit totaling \$14,086,022 is anticipated to be funded by the sale of the property in future fiscal years. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$2,256,681)
- Workers' compensation (\$14,657)
- Perpetual permanent funds (\$2,084,484)
- Other specific purposes (\$924,553)
- Fund a portion of the fiscal year 2009 operating budget (\$1,597,363)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$6,410,299, while total fund balance was \$10,279,000. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures and transfers out. Undesignated fund balance represents 7.8% of total general fund expenditures and transfers out, while total fund balance represents 12.5% of that same amount.

The balance of the Town's general fund decreased by \$132,281 during fiscal year 2008. The Town recognized a positive budget to actual variance (excluding encumbrances and continuing appropriations) totaling approximately \$4,374,000; and used approximately \$4,037,000 of reserves to fund the fiscal year 2008 budget. In addition, the short-term interest accrual increased by approximately \$571,000.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$896,594 during the current fiscal year. During the year, transfers into the fund totaled \$2,998,233 and transfers out of the fund totaled \$2,726,028. Investment income for the year totaled \$624,389.

The fund balance of the school construction fund (capital projects) increased by \$3,489,391 during the current fiscal year. Expenditures totaling \$1,250,609 were incurred during the fiscal year. The fund also received bond proceeds totaling \$4,740,000.

The fund balance of the Hamilton Farm purchase capital projects fund (major fund) decreased by \$13,828,194 during the current fiscal year. Expenditures totaling \$13,828,194 were incurred during the fiscal year. The fund deficit at the end of the year totaled \$14,086,022 and is anticipated to be funded by the sale of the property in future fiscal years.

Proprietary funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water/sewer enterprise fund at the end of the year amounted to \$3,510,670. The water/sewer enterprise fund had an increase in net assets for the year of \$1,341,417. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget totaled \$76,227,119. During the year, supplemental appropriations totaling \$77,000 were authorized.

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures and encumbrances and continuing appropriations were less than budgetary estimates, resulting in a positive budget to actual variance totaling approximately \$2,117,000. Encumbrances and continuing appropriations total approximately \$2,257,000 at year-end.

Capital Assets and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business-type activities at the end of the fiscal year totaled \$159,795,408 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year was \$210,916 (0.1%).

Major capital asset events that occurred during the current fiscal year include the following:

- Bike Path construction in progress (approximately \$147,000)
- McCall school design construction in progress (approximately \$502,000)
- Portable classrooms construction in progress (approximately \$157,000)
- Handicap ramps construction in progress (approximately \$101,000)
- High school interior improvements (approximately \$293,000)
- Lynch school roof improvements (approximately \$358,000)
- Schools HVAC improvements (approximately \$305,000)
- Public works equipment (approximately \$290,000)
- Public safety equipment (approximately \$155,000)
- Public safety vehicles (approximately \$169,000)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Land.....	\$ 60,081,516	\$ 60,081,516	\$ -	\$ -	\$ 60,081,516	\$ 60,081,516
Land improvements.....	1,741,471	1,948,785	16,481	18,678	1,757,952	1,967,463
Buildings and improvements.....	67,505,453	68,209,923	5,382,471	5,527,217	72,887,924	73,737,140
Machinery and equipment.....	2,341,801	1,896,039	823,221	714,362	3,165,022	2,610,401
Vehicles.....	477,635	507,212	191,772	289,727	669,407	796,939
Infrastructure.....	8,631,479	9,319,770	11,018,786	11,028,252	19,650,265	20,348,022
Construction in progress.....	1,583,322	464,843	-	-	1,583,322	464,843
Total capital assets.....	\$ 142,362,677	\$ 142,428,088	\$ 17,432,731	\$ 17,578,236	\$ 159,795,408	\$ 160,006,324

Additional information on the Town's capital assets can be found in Note 5 on pages 45-46 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$51,807,124, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
General obligation bonds.....	\$ 41,066,705	\$ 38,138,213	\$ 10,197,195	\$ 11,155,426	\$ 51,263,900	\$ 49,293,639
MWRA notes.....	-	-	499,152	565,671	499,152	565,671
MWPAT notes.....	-	-	44,072	48,079	44,072	48,079
Total bonds and notes.....	\$ 41,066,705	\$ 38,138,213	\$ 10,740,419	\$ 11,769,176	\$ 51,807,124	\$ 49,907,389

The Town's total bonded debt increased by \$1,899,735 (3.8%) during the current fiscal year; \$5,778,000 of new debt was issued.

The Town's bond rating from Moody's Investors Services for the July 2008 bond issuance was Aaa.

Additional information on the Town's long-term debt can be found in Note 8 on pages 48-53 of this report.

Economic Factors and Next Year's Budgets and Rates

The Annual Town Meeting approved the Fiscal 2009 Operating Budget of \$85,483,428. This amount included an appropriation to the Special Articles Fund of \$1,392,566, Building Stabilization \$2,145,433, Capital Stabilization \$927,755 and Water Sewer Enterprise Fund \$5,088,730. Transfers from other funds to support the appropriation amounted to \$3,524,613. Town Meeting also approved the Retiree Trust Fund with an appropriation of \$75,000.

The provisions of Proposition 2 ½ limit the growth of the Town's major source of revenue, property taxes to an annual increase of 2 ½% plus a factor for new construction, unless the voters at an election approve an increase for operating expenses of debt service for a specific project. The average value of a single family home is \$773,300, commercial property \$ 1,046,800 and industrial \$1, 502,100. The increase in the Fiscal 2009 tax levy attributable to new growth is \$509,052. The tax levy in Fiscal 2009 is estimated at \$57,429,495 which is an increase of \$2,812,157 or 5% compared to Fiscal 2008.

Total Fiscal 2008 General Fund revenue was \$75,607,747, which includes transfers from other funds. Real Estate and Personal Property Tax accounted for 75%, Motor Vehicle Excise 4% and Intergovernmental 8% of total revenue. In Fiscal 2009 State Revenue is expected to increase by 17% compared to Fiscal 2008 mainly due to increases in Chapter 70 which will increase 25%.

The Town continues to have substantial balances in the Building Stabilization and Capital Stabilization funds. At June 30, 2008 the Building Stabilization fund has a balance of approximately \$7,386,424 and the Capital Stabilization fund has a balance of approximately \$616,722.

During Fiscal 2008 the Town of Winchester developed and implemented the Fraud Prevention and Detection Policy, Policies and Procedures Manual and the Treasury Investment Policy.

Major capital projects currently under construction include the Town Hall renovation, Veteran's Memorial and Public Safety Building. At the Town Meeting held in the November 2008 the renovation and reconstruction of Manchester Field was approved.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Comptroller, 71 Mount Vernon Street, Winchester, Massachusetts 01890.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents.....	\$ 21,598,073	\$ 2,000,003	\$ 23,598,076
Restricted cash and cash equivalents.....	5,495,867	1,624,017	7,119,884
Investments.....	7,851,253	-	7,851,253
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	450,118	-	450,118
Real estate tax deferrals.....	485,646	-	485,646
Tax and utility liens.....	543,377	9,458	552,835
Motor vehicle and other excise taxes.....	158,092	-	158,092
User charges.....	-	1,916,114	1,916,114
Special assessments.....	30,547	-	30,547
Departmental and other.....	303,866	-	303,866
Intergovernmental.....	1,472,080	-	1,472,080
Total current assets.....	38,388,919	5,549,592	43,938,511
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Special assessments.....	207,334	-	207,334
Intergovernmental.....	6,801,607	-	6,801,607
Assets held for resale.....	14,000,000	-	14,000,000
Capital assets not being depreciated.....	61,664,838	-	61,664,838
Capital assets, net of accumulated depreciation.....	80,697,839	17,432,731	98,130,570
Total noncurrent assets.....	163,371,618	17,432,731	180,804,349
Total assets.....	201,760,537	22,982,323	224,742,860
LIABILITIES			
Current liabilities:			
Warrants payable.....	790,107	48,572	838,679
Accrued payroll.....	434,504	72,796	507,300
Tax refunds payable.....	140,257	-	140,257
Other liabilities.....	397,980	-	397,980
Unearned revenue.....	1,600,000	-	1,600,000
Accrued interest.....	1,336,637	208,859	1,545,496
Workers' compensation claims.....	147,282	-	147,282
Compensated absences.....	84,904	4,060	88,964
Short-term notes payable.....	14,224,999	-	14,224,999
Long-term bonds and notes payable.....	2,693,056	923,209	3,616,265
Total current liabilities.....	21,849,726	1,257,496	23,107,222
Noncurrent liabilities:			
Workers' compensation claims.....	38,061	-	38,061
Compensated absences.....	764,138	36,546	800,684
Long-term bonds and notes payable.....	38,373,649	9,817,210	48,190,859
Total noncurrent liabilities.....	39,175,848	9,853,756	49,029,604
Total liabilities.....	61,025,574	11,111,252	72,136,826
NET ASSETS			
Invested in capital assets, net of related debt.....	112,318,823	8,360,401	120,679,224
Restricted for:			
Permanent funds:			
Expendable.....	822,569	-	822,569
Nonexpendable.....	2,084,484	-	2,084,484
Other specific purposes.....	924,553	-	924,553
Unrestricted.....	24,584,534	3,510,670	28,095,204
Total net assets.....	\$ 140,734,963	\$ 11,871,071	\$ 152,606,034

See notes to basic financial statements.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 6,424,487	\$ 450,423	\$ 491,146	\$ -	\$ (5,482,918)
Public safety.....	10,979,897	2,312,285	506,496	-	(8,161,116)
Education.....	48,229,521	1,985,471	13,244,869	-	(32,999,181)
Public works.....	8,879,559	1,680,398	348,251	570,705	(6,280,205)
Health and human services.....	1,268,676	97,126	497,209	-	(674,341)
Culture and recreation.....	4,223,893	1,360,790	353,222	-	(2,509,881)
Debt service - interest.....	2,326,165	-	410,805	-	(1,915,360)
Total governmental activities.....	82,332,198	7,886,493	15,851,998	570,705	(58,023,002)
Business-type activities:					
Water/Sewer.....	7,836,845	5,680,042	143,602	-	(2,013,201)
Total primary government.....	\$ 90,169,043	\$ 13,566,535	\$ 15,995,600	\$ 570,705	\$ (60,036,203)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (58,023,002)	\$ (2,013,201)	\$ (60,036,203)
<i>General revenues:</i>			
Real estate and personal property taxes.....	57,214,582	-	57,214,582
Motor vehicle and other excise taxes.....	2,956,311	-	2,956,311
Penalties and interest on taxes.....	156,896	-	156,896
Payments in lieu of taxes.....	30,000	-	30,000
Grants and contributions not restricted to specific programs.....	2,403,824	-	2,403,824
Unrestricted investment income.....	1,358,469	-	1,358,469
<i>Transfers, net</i>	(3,354,618)	3,354,618	-
Total general revenues and transfers.....	60,765,464	3,354,618	64,120,082
Change in net assets.....	2,742,462	1,341,417	4,083,879
Net assets - beginning of year.....	137,992,501	10,529,654	148,522,155
Net assets - end of year.....	\$ 140,734,963	\$ 11,871,071	\$ 152,606,034

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2008

ASSETS	General	Stabilization	School Construction
Cash and cash equivalents.....	\$ 12,255,995	\$ 4,739,403	\$ -
Investments.....	-	4,298,133	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	450,118	-	-
Real estate tax deferrals.....	485,646	-	-
Tax liens.....	543,377	-	-
Motor vehicle and other excise taxes.....	158,092	-	-
Special assessments.....	237,881	-	-
Departmental and other.....	203,577	-	-
Intergovernmental.....	7,510,333	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	2,500,253
TOTAL ASSETS.....	\$ 21,845,019	\$ 9,037,536	\$ 2,500,253
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 416,005	\$ -	\$ 12,734
Accrued payroll.....	398,900	-	-
Tax refunds payable.....	140,257	-	-
Other liabilities.....	393,147	-	-
Deferred revenue.....	9,328,318	-	-
Accrued short-term interest.....	704,049	-	-
Workers' compensation claims.....	185,343	-	-
Short-term notes payable.....	-	-	174,663
TOTAL LIABILITIES.....	11,566,019	-	187,397
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	2,256,681	-	-
Workers' compensation.....	14,657	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	1,597,363	-	-
Undesignated, reported in:			
General fund.....	6,410,299	-	-
Special revenue funds.....	-	9,037,536	-
Capital projects funds.....	-	-	2,312,856
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	10,279,000	9,037,536	2,312,856
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 21,845,019	\$ 9,037,536	\$ 2,500,253

See notes to basic financial statements.

Hamilton Farm Purchase	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,602,675	\$ 21,598,073
-	3,553,120	7,851,253
-	-	450,118
-	-	485,646
-	-	543,377
-	-	158,092
-	-	237,881
-	100,289	303,866
-	763,354	8,273,687
<u>1,563,978</u>	<u>1,431,636</u>	<u>5,495,867</u>
<u>\$ 1,563,978</u>	<u>\$ 10,451,074</u>	<u>\$ 45,397,860</u>

\$ -	\$ 361,368	\$ 790,107
-	35,604	434,504
-	-	140,257
-	4,833	397,980
1,600,000	100,289	11,028,607
-	-	704,049
-	-	185,343
<u>14,050,000</u>	<u>336</u>	<u>14,224,999</u>
<u>15,650,000</u>	<u>502,430</u>	<u>27,905,846</u>

-	-	2,256,681
-	-	14,657
-	2,084,484	2,084,484
-	924,553	924,553
-	-	1,597,363
-	-	6,410,299
-	5,013,308	14,050,844
(14,086,022)	1,103,730	(10,669,436)
<u>-</u>	<u>822,569</u>	<u>822,569</u>
<u>(14,086,022)</u>	<u>9,948,644</u>	<u>17,492,014</u>
<u>\$ 1,563,978</u>	<u>\$ 10,451,074</u>	<u>\$ 45,397,860</u>

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Stabilization	School Construction
REVENUES			
Real estate and personal property taxes.....	\$ 56,880,456	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,969,737	-	-
Tax liens.....	221,463	-	-
Payments in lieu of taxes.....	30,000	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,377,182	-	-
Intergovernmental.....	14,501,626	-	-
Special assessments.....	56,187	-	-
Penalties and interest on taxes.....	156,896	-	-
Licenses, permits and fees.....	1,902,118	-	-
Fines and forfeitures.....	207,310	-	-
Departmental.....	179,676	-	-
Contributions.....	-	-	-
Investment income.....	734,080	624,389	-
TOTAL REVENUES.....	79,216,731	624,389	-
EXPENDITURES			
Current:			
General government.....	5,649,923	-	-
Public safety.....	7,511,423	-	-
Education.....	30,412,488	-	1,250,609
Public works.....	6,359,592	-	-
Health and human services.....	462,296	-	-
Culture and recreation.....	1,541,788	-	-
Pension benefits.....	9,541,043	-	-
Employee benefits.....	8,283,664	-	-
Property and liability insurance.....	324,966	-	-
State and county charges.....	459,950	-	-
Debt service:			
Principal.....	2,886,242	-	-
Interest.....	2,340,187	-	-
TOTAL EXPENDITURES.....	75,773,562	-	1,250,609
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	3,443,169	624,389	(1,250,609)
OTHER FINANCING SOURCES (USES)			
Transfers in.....	2,916,028	2,998,233	-
Proceeds of bonds and notes.....	-	-	4,740,000
Premium from issuance of bonds and notes.....	56,347	-	-
Transfers out.....	(6,547,825)	(2,726,028)	-
TOTAL OTHER FINANCING SOURCES (USES).....	(3,575,450)	272,205	4,740,000
NET CHANGE IN FUND BALANCES.....	(132,281)	896,594	3,489,391
FUND BALANCES AT BEGINNING OF YEAR (as restated).....	10,411,281	8,140,942	(1,176,535)
FUND BALANCES AT END OF YEAR.....	\$ 10,279,000	\$ 9,037,536	\$ 2,312,856

See notes to basic financial statements.

Hamilton Farm Purchase	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 56,880,456
-	-	2,969,737
-	-	221,463
-	-	30,000
-	1,662,007	1,662,007
-	-	1,377,182
-	4,127,870	18,629,496
-	-	56,187
-	-	156,896
-	2,534,328	4,436,446
-	-	207,310
-	30,617	210,293
-	1,371,610	1,371,610
-	63,157	1,421,626
-	9,789,589	89,630,709
13,828,194	167,796	19,645,913
-	1,066,056	8,577,479
-	4,362,463	36,025,560
-	611,802	6,971,394
-	242,873	705,169
-	1,790,258	3,332,046
-	-	9,541,043
-	-	8,283,664
-	-	324,966
-	-	459,950
-	-	2,886,242
-	-	2,340,187
13,828,194	8,241,248	99,093,613
(13,828,194)	1,548,341	(9,462,904)
-	215,082	6,129,343
-	1,038,000	5,778,000
-	-	56,347
-	(210,108)	(9,483,961)
-	1,042,974	2,479,729
(13,828,194)	2,591,315	(6,983,175)
(257,828)	7,357,329	24,475,189
\$ (14,086,022)	\$ 9,948,644	\$ 17,492,014

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Total governmental fund balances (page 19).....	\$	17,492,014
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		156,362,677
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		9,428,607
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(632,588)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable, net of unamortized premiums and deferred losses on refundings.....		(41,066,705)
Compensated absences.....		<u>(849,042)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>140,734,963</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 21).....	\$	(6,983,175)
<p>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. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		3,780,054
Depreciation.....		(3,767,468)
<p>In the statement of activities, only the <i>gain or loss</i> on the sale and/or disposal of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		(77,997)
<p>Governmental funds report asset investment outlays as expenditures. However, in the statement of activities the cost of those assets purchased are capitalized and maintained until the sale occurs. This amount represents the related activity of the current period.....</p>		
		14,000,000
<p>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.....</p>		
		(1,257,778)
<p>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 impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(5,778,000)
Bond maturities.....		2,886,242
Amortization of deferred losses on refundings.....		(36,734)
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		50,756
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net changes:</p>		
Compensated absences.....		(73,438)
Changes in net assets of governmental activities (page 17).....	\$	<u>2,742,462</u>

See notes to basic financial statements.

**PROPRIETARY FUND
STATEMENT OF NET ASSETS**

JUNE 30, 2008

		Business-Type Activities Enterprise Fund
		<u>Water/Sewer</u>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$	2,000,003
Restricted cash and cash equivalents.....		1,624,017
Receivables, net of allowance for uncollectible amounts:		
User charges.....		1,916,114
Utility liens.....		<u>9,458</u>
Total current assets.....		<u>5,549,592</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....		<u>17,432,731</u>
Total assets.....		<u>22,982,323</u>
LIABILITIES		
Current liabilities:		
Warrants payable.....		48,572
Accrued payroll.....		72,796
Accrued interest.....		208,859
Compensated absences.....		4,060
Long-term bonds and notes payable.....		<u>923,209</u>
Total current liabilities.....		<u>1,257,496</u>
Noncurrent liabilities:		
Compensated absences.....		36,546
Long-term bonds and notes payable.....		<u>9,817,210</u>
Total noncurrent liabilities.....		<u>9,853,756</u>
Total liabilities.....		<u>11,111,252</u>
NET ASSETS		
Invested in capital assets, net of related debt.....		8,360,401
Unrestricted.....		<u>3,510,670</u>
Total net assets.....	\$	<u><u>11,871,071</u></u>

See notes to basic financial statements.

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Business-Type Activities Enterprise Fund
		<u>Water/Sewer</u>
OPERATING REVENUES		
Charges for services.....	\$	5,655,049
Penalties and interest.....		24,993
		<u>5,680,042</u>
OPERATING EXPENSES		
Cost of service and administration.....		2,142,306
MWRA assessment.....		3,832,445
Depreciation.....		595,027
Pension benefits.....		306,339
Employee benefits.....		499,881
		<u>7,375,998</u>
OPERATING (LOSS).....		<u>(1,695,956)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income.....		143,602
Interest expense.....		(460,847)
		<u>(317,245)</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....		<u>(317,245)</u>
(LOSS) BEFORE TRANSFERS.....		<u>(2,013,201)</u>
TRANSFERS		
Transfers in.....		<u>3,354,618</u>
CHANGE IN NET ASSETS.....		1,341,417
NET ASSETS AT BEGINNING OF YEAR.....		<u>10,529,654</u>
NET ASSETS AT END OF YEAR.....	\$	<u><u>11,871,071</u></u>

See notes to basic financial statements.

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Business-Type Activities Enterprise Fund
		<u>Water/Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$	5,119,344
Payments to vendors.....		(5,497,102)
Payments to employees.....		(1,270,039)
		<u>(1,647,797)</u>
NET CASH FROM OPERATING ACTIVITIES.....		(1,647,797)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in.....		3,354,618
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets.....		(449,523)
Principal payments on bonds and notes.....		(1,126,284)
Interest expense.....		(382,753)
		<u>(1,958,560)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....		(1,958,560)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....		143,602
NET CHANGE IN CASH AND CASH EQUIVALENTS.....		(108,137)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
(Includes \$2,103,419 reported as restricted).....		3,732,157
CASH AND CASH EQUIVALENTS AT END OF YEAR		
(Includes \$1,624,017 reported as restricted).....	\$	<u>3,624,020</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$	(1,695,956)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....		595,027
Changes in assets and liabilities:		
Utility liens.....		468
User charges.....		(561,166)
Warrants payable.....		30,660
Accrued payroll.....		35,500
Accrued compensated absences.....		(52,330)
Total adjustments.....		<u>48,159</u>
NET CASH FROM OPERATING ACTIVITIES.....	\$	<u>(1,647,797)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

ASSETS	Pension Trust Fund (As of 12/31/07)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 10,729,723	\$ 33,647	\$ 678,168
Investments.....	77,833,206	496,343	-
Interest and dividends.....	43,369	-	-
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	26,776	-	-
Total assets.....	<u>88,633,074</u>	<u>529,990</u>	<u>678,168</u>
LIABILITIES			
Warrants payable.....	80,775	14	9,843
Other liabilities.....	-	-	319,284
Liabilities due depositors.....	-	-	349,041
Total liabilities.....	<u>80,775</u>	<u>14</u>	<u>678,168</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 88,552,299</u>	<u>\$ 529,976</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (As of 12/31/07)	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer.....	\$ 3,158,232	\$ -
Employee.....	1,512,027	-
Private donations.....	-	2,501
Total contributions.....	4,670,259	2,501
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	6,412,513	(11,185)
Interest.....	2,209,323	16,231
Total investment income (loss).....	8,621,836	5,046
Less investment expense.....	(357,888)	-
Net investment income (loss).....	8,263,948	5,046
Intergovernmental.....	201,314	-
Transfers from other systems.....	266,163	-
TOTAL ADDITIONS.....	13,401,684	7,547
DEDUCTIONS		
Administration.....	80,442	-
Retirement benefits and refunds.....	5,408,927	-
Transfers to other systems.....	234,414	-
Scholarships awarded.....	-	2,633
TOTAL DEDUCTIONS.....	5,723,783	2,633
CHANGE IN NET ASSETS.....	7,677,901	4,914
NET ASSETS AT BEGINNING OF YEAR.....	80,874,398	525,062
NET ASSETS AT END OF YEAR.....	\$ 88,552,299	\$ 529,976

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Winchester, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete.

The Town has included the Winchester Contributory Retirement System (System) as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the Town. Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

Blended Component Unit

The System was established to provide retirement benefits to Town employees, the Winchester Housing Authority's employees, and their respective beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, a fourth member appointed by the Board of Selectmen and a fifth member appointed by the Retirement Board's members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary funds financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 71 Mount Vernon Street, Winchester, Massachusetts 01890.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Northeast Metropolitan Regional Vocational School District

The Town is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's fiscal year 2008 assessment totaled approximately \$148,000. Separate financial statements may be obtained by writing to the Treasurer of the District at 100 Hemlock Road, Wakefield, Massachusetts 01880.

C. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement of activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting and Basis of PresentationGovernment-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise fund, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves. Use of this fund is subject to Town Meeting approval.

The *school construction fund* is a capital projects fund used to account for financial resources to expand and upgrade school facilities.

The *Hamilton Farm purchase fund* is a capital projects fund used to account for financial resources to purchase and subsequently sell the Hamilton Farm property (see Note 13).

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary fund is reported:

The *water and sewer enterprise fund* is used to account for the water and sewer activities.

Fiduciary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of bid deposits and payroll withholdings. Agency funds do not present the results of operations or have a measurement focus.

E. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. Fair value is based on quotations from a national securities exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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 August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed approximately one year after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

User Charges (Water and Sewer)

User charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed approximately every two years and are included as a lien on the property owner's tax bill. Water and sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Special Assessments

Special assessments for sidewalks and streets betterments are levied annually based on various sidewalks and streets projects. Residents have the option of paying their respective share of the betterment up front or over a period of up to 20 years and are subject to penalties and interest if they are not paid by the respective due dates. Special assessments are recorded as receivables when the project is complete.

Departmental and Other

Departmental and other receivables consist primarily of ambulance and police details and are recorded as receivables in the fiscal year accrued.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

G. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements and the proprietary fund financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land, construction in progress and assets held for resale) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings and improvements.....	7-50
Machinery and equipment.....	5-30
Vehicles.....	8
Infrastructure.....	20-60

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

K. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

M. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

N. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Perpetual permanent funds" represents amounts held in trust for which only investment earnings may be expended.

"Workers' compensation" represents amounts accumulated for self-insured workers' compensation activities.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2009 operating budget.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

P. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the proprietary fund is retained in the proprietary fund.

Q. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Funds Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

*R. Post Retirement Benefits*Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's share (between 70 and 90 percent) of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2008, this expenditure totaled approximately \$2,380,000. There were approximately 497 participants eligible to receive benefits at June 30, 2008.

*S. Use of Estimates*Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

*T. Total Column*Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2008 approved budget for the general fund authorized approximately \$76,038,724 in appropriations and other amounts to be raised. During fiscal year 2008, supplemental appropriations totaling \$77,000 were authorized.

The Comptroller's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Fund Deficits

At June 30, 2008, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Hamilton Farm.....	\$ 14,086,022	Issuance of long-term debt
Transfer Station Plans	43,769	Issuance of long-term debt
Smoking Cessation Grant.....	24,136	Federal grant
SPED Professional Development.....	12,868	Federal grant

C. Excess of Expenditures Over Appropriations

During the fiscal year ended June 30, 2008, expenditures and encumbrances and continuing appropriations exceeded appropriations for state and county charges and debt service - interest. These over-expenditures will be funded by taxes and available funds during fiscal year 2009.

NOTE 3 - DEPOSITS AND INVESTMENTS*Town (excluding the Pension Trust Fund)*

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds, private purpose trust funds and the pension trust fund are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2008, \$2,604,906 of the Town's bank balance of \$2,895,963 was uninsured and uncollateralized.

Investments Summary

The Town's investments at June 30, 2008 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 1,261,021	\$ 25,240	\$ 855,198	\$ 326,384	\$ 54,199
U.S. Agencies.....	4,298,133	-	415,717	3,524,001	358,415
Corporate bonds.....	120,864	-	120,864	-	-
Money market mutual funds.....	514,428	514,428	-	-	-
Mutual bond funds.....	164,420	164,420	-	-	-
Repurchase agreements.....	8,319,568	8,319,568	-	-	-
External investment pools.....	20,304,610	20,304,610	-	-	-
Total debt securities.....	34,983,044	\$ 29,328,266	\$ 1,391,779	\$ 3,850,385	\$ 412,614
<u>Other Investments:</u>					
Equity securities.....	2,503,158				
Total investments.....	\$ 37,486,202				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town has a policy that the fixed income portion of the portfolio shall have an average maturity of not more than 10 years.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2008, \$11,772,361 of the Town's investments of \$37,486,202 was uninsured, not registered in the name of the Town and exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust or Agent</u>
U.S. Agencies.....	\$ 4,298,133	\$ -	\$ 4,298,133
Repurchase agreements.....	<u>7,474,228</u>	<u>7,474,228</u>	<u>-</u>
Total.....	<u>\$ 11,772,361</u>	<u>\$ 7,474,228</u>	<u>\$ 4,298,133</u>

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town has a policy that corporate debt obligations shall be rated no less than "A" by at least one nationally recognized bond rating service. As of June 30, 2008, the credit quality ratings of the Town's investment in debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings *</u>	
		<u>AAA</u>	<u>Unrated</u>
Corporate bonds.....	\$ 120,864	\$ 120,864	\$ -
Money market mutual funds.....	514,428	-	514,428
Mutual bond funds.....	164,420	-	164,420
Repurchase agreements.....	8,319,568	-	8,319,568
External investment pools.....	<u>20,304,610</u>	<u>-</u>	<u>20,304,610</u>
Total.....	<u>\$ 29,423,890</u>	<u>\$ 120,864</u>	<u>\$ 29,303,026</u>

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2008, the Town was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town has a policy that no individual holding of the fund should exceed 5 percent of the total fair market value of the fund. As of June 30, 2008, the Town was not exposed to concentration of credit risk.

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2007, the System was not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2007 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Money market mutual funds.....	\$ 10,697,729	\$ 10,697,729
Mutual bond funds.....	11,858,859	11,858,859
External investment pools.....	<u>18,515,772</u>	<u>18,515,772</u>
Total debt securities.....	<u>41,072,360</u>	<u>\$ 41,072,360</u>
<u>Other Investments:</u>		
Equity securities.....	4,478,979	
Equity mutual funds.....	39,569,567	
Real estate investments.....	<u>3,409,078</u>	
Total other investments.....	<u>47,457,624</u>	
Total investments.....	<u>\$ 88,529,984</u>	

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2007, \$14,038,710 of the System's investments of \$88,529,984 was uninsured, not registered in the name of the System and exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust or Agent</u>
Mutual bond funds.....	\$ 11,858,859	\$ 11,858,859	\$ -
Real estate investments.....	<u>2,179,851</u>	<u>2,142,431</u>	<u>37,420</u>
Total.....	\$ <u>14,038,710</u>	\$ <u>14,001,290</u>	\$ <u>37,420</u>

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2007, the credit quality ratings of the System's debt securities are as follows:

<u>Quality Ratings*</u>	<u>Money Market Mutual Funds</u>	<u>Mutual Bond Funds</u>	<u>External Investment Pools</u>	<u>Total</u>
AAA.....	\$ -	\$ 7,582,545	\$ -	\$ 7,582,545
AA.....	-	931,922	-	931,922
AA+.....	-	7,201	-	7,201
AA-.....	-	365,892	-	365,892
A.....	-	223,946	-	223,946
A+.....	-	337,387	-	337,387
A-.....	-	185,338	-	185,338
BBB.....	-	672,189	-	672,189
BBB+.....	-	578,881	-	578,881
BBB-.....	-	380,163	-	380,163
BB.....	-	4,267	-	4,267
BB+.....	-	96,798	-	96,798
B-.....	-	15,461	-	15,461
Unrated.....	<u>10,697,729</u>	<u>476,868</u>	<u>18,515,772</u>	<u>29,690,369</u>
Total.....	\$ <u>10,697,729</u>	\$ <u>11,858,859</u>	\$ <u>18,515,772</u>	\$ <u>41,072,360</u>

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of December 31, 2007, the System's exposure to foreign currency risk is as follows:

Deposit/Investment Type	U.S. Dollar Balances	Currency
Equity mutual funds.....	\$ 8,921,748	Euro
Equity mutual funds.....	4,939,849	United States
Equity mutual funds.....	4,665,985	Japan
Equity mutual funds.....	4,573,537	UK
Equity mutual funds.....	1,956,140	Hong Kong
Equity mutual funds.....	1,512,702	Switzerland
Equity mutual funds.....	1,408,508	Korea
Equity mutual funds.....	1,236,721	Australia
Equity mutual funds.....	916,879	Sweden
Equity mutual funds.....	837,358	Brazil
Equity mutual funds.....	572,489	Norway
Equity mutual funds.....	474,959	South Africa
Equity mutual funds.....	423,340	Turkey
Equity mutual funds.....	379,076	Taiwan
Equity mutual funds.....	198,439	Thailand
Equity mutual funds.....	196,562	Singapore
Equity mutual funds.....	182,742	Indonesia
Equity mutual funds.....	173,044	Hungary
Equity mutual funds.....	167,558	India
Equity mutual funds.....	151,960	Egypt
Equity mutual funds.....	128,046	Poland
Equity mutual funds.....	123,953	Pakistan ex
Equity mutual funds.....	120,715	Denmark
Equity mutual funds.....	115,618	Mexico
Equity mutual funds.....	77,227	Israel
Equity mutual funds.....	29,547	New Zealand
Equity mutual funds.....	20,257	Philippines
Equity mutual funds.....	18,268	Sri Lanka
Equity mutual funds.....	18,037	Canada
Equity mutual funds.....	8,485	Russia
Total.....	\$ 34,549,749	

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of System's investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2007, the System was not exposed to concentration of credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2008, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 450,118	\$ -	\$ 450,118
Real estate tax deferrals.....	485,646	-	485,646
Tax liens.....	543,377	-	543,377
Motor vehicle and other excise taxes.....	310,433	(152,341)	158,092
Special assessments.....	237,881	-	237,881
Departmental and other.....	387,656	(83,790)	303,866
Intergovernmental.....	8,300,463	-	8,300,463
Total.....	\$ 10,715,574	\$ (236,131)	\$ 10,479,443

At June 30, 2008, receivables for the water/sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 1,916,114	-	\$ 1,916,114
Utility liens.....	9,458	-	9,458
Total.....	\$ 1,925,572	\$ -	\$ 1,925,572

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 following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 203,015	\$ -	\$ 203,015
Real estate tax deferrals.....	485,646	-	485,646
Tax and utility liens.....	529,774	-	529,774
Motor vehicle and other excise taxes.....	158,092	-	158,092
Special assessments.....	237,881	-	237,881
Departmental and other.....	203,577	100,289	303,866
Intergovernmental (state school construction).....	7,510,333	-	7,510,333
Total.....	\$ 9,328,318	\$ 100,289	\$ 9,428,607

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2008, approximately \$1,038,777 of such assistance was received. Approximately \$9,493,000 will be received in future fiscal years. Of this amount, approximately \$1,983,000 represents reimbursement of long-term interest costs, and approximately \$7,510,000 represents reimbursement of approved construction costs. Accordingly, an \$7,510,333 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 60,081,516	\$ -	\$ -	\$ 60,081,516
Construction in progress.....	464,843	1,118,479	-	1,583,322
Total capital assets not being depreciated.....	<u>60,546,359</u>	<u>1,118,479</u>	<u>-</u>	<u>61,664,838</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	4,654,368	-	-	4,654,368
Buildings and improvements.....	94,196,805	1,315,543	-	95,512,348
Machinery and equipment.....	9,967,390	1,128,987	(1,016,906)	10,079,471
Vehicles.....	4,044,290	197,344	(511,008)	3,730,626
Infrastructure.....	28,362,685	19,701	-	28,382,386
Total capital assets being depreciated.....	<u>141,225,538</u>	<u>2,661,575</u>	<u>(1,527,914)</u>	<u>142,359,199</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(2,705,583)	(207,314)	-	(2,912,897)
Buildings and improvements.....	(25,986,882)	(2,020,013)	-	(28,006,895)
Machinery and equipment.....	(8,071,351)	(605,543)	939,224	(7,737,670)
Vehicles.....	(3,537,078)	(226,606)	510,693	(3,252,991)
Infrastructure.....	(19,042,915)	(707,992)	-	(19,750,907)
Total accumulated depreciation.....	<u>(59,343,809)</u>	<u>(3,767,468)</u>	<u>1,449,917</u>	<u>(61,661,360)</u>
Total capital assets being depreciated, net.....	<u>81,881,729</u>	<u>(1,105,893)</u>	<u>(77,997)</u>	<u>80,697,839</u>
Total governmental activities capital assets, net.....	<u>\$ 142,428,088</u>	<u>\$ 12,586</u>	<u>\$ (77,997)</u>	<u>\$ 142,362,677</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Land improvements.....	\$ 43,947	\$ -	\$ -	\$ 43,947
Buildings and improvements.....	7,237,301	-	-	7,237,301
Machinery and equipment.....	1,297,215	173,610	(30,000)	1,440,825
Vehicles.....	840,963	-	(34,000)	806,963
Infrastructure.....	13,529,584	275,913	-	13,805,497
	<u>22,949,010</u>	<u>449,523</u>	<u>(64,000)</u>	<u>23,334,533</u>
Less accumulated depreciation for:				
Land improvements.....	(25,269)	(2,197)	-	(27,466)
Buildings and improvements.....	(1,710,084)	(144,746)	-	(1,854,830)
Machinery and equipment.....	(582,853)	(64,751)	30,000	(617,604)
Vehicles.....	(551,236)	(97,955)	34,000	(615,191)
Infrastructure.....	(2,501,332)	(285,379)	-	(2,786,711)
	<u>(5,370,774)</u>	<u>(595,028)</u>	<u>64,000</u>	<u>(5,901,802)</u>
Total business-type activities capital assets, net.....	<u>\$ 17,578,236</u>	<u>\$ (145,505)</u>	<u>\$ -</u>	<u>\$ 17,432,731</u>

Depreciation expense was charged to functions/ programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 177,537
Public safety.....	200,046
Education.....	1,802,651
Public works.....	1,124,501
Health and human services.....	1,972
Culture and recreation.....	460,761

Total depreciation expense - governmental activities..... \$ 3,767,468

Business-Type Activities:

Water/Sewer.....	\$ 595,028
------------------	------------

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

Transfers Out:	Transfers In:				Total
	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Water/Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 2,998,233	\$ 194,974	\$ 3,354,618	\$ 6,547,825 (1)
Stabilization Fund.....	2,726,028	-	-	-	2,726,028 (2)
Nonmajor Governmental Funds...	190,000	-	20,108	-	210,108 (3)
	<u>\$ 2,916,028</u>	<u>\$ 2,998,233</u>	<u>\$ 215,082</u>	<u>\$ 3,354,618</u>	<u>\$ 9,483,961</u>

(1) Represents budgeted transfers to the stabilization fund (\$2,998,233), athletics special revenue fund (\$194,974) and enterprise fund subsidy (\$3,354,618).

(2) Represents budgeted transfer from the stabilization fund (\$2,726,028).

(3) Represent budgeted transfers from the parking meter special revenue fund (\$70,000) and cemetery care permanent fund (\$120,000). Also represents transfers from hospital gift account fund to the board of health special revenue fund (\$15,000), transfer from renewing the vision fund to the high school improvement special revenue fund (\$108) and transfer from town manager grant fund to the veterans' memorial special revenue fund (\$5,000).

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, is as follows:

Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008
BAN	School Remodeling.....	7/2/07	7/1/08	4.00%	\$ 3,142,663	\$ -	\$ (2,968,000)	\$ 174,663
BAN	Land Acquisition.....	6/21/07	7/12/07	5.40%	350,000	-	(350,000)	-
BAN	Transfer Station.....	6/21/07	7/12/07	5.40%	50,000	-	(50,000)	-
BAN	Land Acquisition.....	7/12/07	7/10/08	4.25%	-	13,600,000	-	13,600,000
BAN	Transfer Station.....	7/12/07	7/10/08	4.25%	-	110,000	(110,000)	-
BAN	Land Acquisition.....	4/17/08	7/10/08	2.13%	-	450,000	-	450,000
BAN	Building Repairs.....	4/17/08	7/10/08	2.13%	-	128,336	(128,000)	336
BAN	Public Safety Building.....	4/17/08	7/10/08	2.13%	-	500,000	(500,000)	-
BAN	McCall Middle School.....	4/17/08	7/10/08	2.13%	-	562,000	(562,000)	-
BAN	Town Hall.....	4/17/08	7/10/08	2.13%	-	300,000	(300,000)	-
BAN	Portable Classrooms.....	4/17/08	7/10/08	2.13%	-	1,110,000	(1,110,000)	-
BAN	McCall Middle School.....	4/17/08	7/10/08	2.13%	-	100,000	(100,000)	-
Total.....					\$ 3,542,663	\$ 16,860,336	\$ (6,178,000)	\$ 14,224,999

Subsequent Events

On July 1, 2008, the Town paid down the BAN outstanding in the amount of \$174,663 with available funds.

On July 1, 2008, the Town issued \$15,112,000 of general obligation bonds. \$5,778,000 of the proceeds of the bonds were used to retire a portion of the school remodeling and building repairs BAN's and retire the transfer station, public safety building, McCall middle school, town hall and portable classrooms BAN's outstanding at June 30, 2008. Accordingly, the \$5,778,000 of general obligation bonds issued subsequent to year end is included as long-term debt at June 30, 2008.

On July 10, 2008, the Town paid down \$1,550,000 of the \$13,600,000 BAN with funds received from the potential buyer of Hamilton Farm. The remaining balance of \$12,050,000 was renewed as a new BAN dated July 10, 2008. The BAN carries an interest rate of 4.00% and matures on February 4, 2009.

On July 10, 2008, the Town renewed the BAN outstanding in the amount of \$450,000, at an interest rate of 4.00% with a maturity date of February 4, 2009.

On July 10, 2008, the Town paid down the BAN outstanding in the amount of \$336 with available funds.

On February 4, 2009, the Town renewed the BANs outstanding in the amounts of \$12,050,000 and \$450,000, at an interest rate of 1.50% with a maturity date of July 9, 2009.

NOTE 8 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Building remodeling.....	4.84%	\$ 300,000	\$ -	\$ (30,000)	\$ 270,000
School project.....	4.85%	910,000	-	(85,000)	825,000
School building remodeling.....	5.20%	208,500	-	(69,500)	139,000
School engineering.....	5.20%	45,000	-	(15,000)	30,000
School construction.....	4.57%	13,070,000	-	(935,000)	12,135,000
Building remodeling refunding.....	3.51%	1,490,155	-	(197,867)	1,292,288
Ambrose school.....	4.47%	6,440,000	-	(360,000)	6,080,000
Lincoln school.....	4.44%	4,140,000	-	(230,000)	3,910,000
Computer hardware & software.....	3.75%	456,000	-	(196,000)	260,000
Capital improvements.....	4.21%	1,078,000	-	(78,000)	1,000,000
Departmental equipment.....	3.94%	210,000	-	(20,000)	190,000
Roads.....	4.13%	342,000	-	(35,000)	307,000
Flood migration.....	3.63%	50,000	-	(25,000)	25,000
Dam improvements.....	3.92%	273,000	-	(40,000)	233,000
Cross street culvert.....	4.44%	180,000	-	(10,000)	170,000
School building remodeling refunding.....	3.82%	764,075	-	(5,075)	759,000
School engineering refunding.....	3.82%	163,550	-	(1,800)	161,750
School remodeling.....	3.92%	2,970,000	-	(165,000)	2,805,000
Town building remodeling.....	3.91%	355,000	-	(20,000)	335,000
Planning.....	3.26%	65,000	-	(20,000)	45,000
Equipment and planning.....	3.51%	215,000	-	(55,000)	160,000
Drainage - cross street.....	3.90%	355,000	-	(20,000)	335,000
Building remodeling.....	4.25%	440,000	-	(25,000)	415,000
School remodeling.....	4.24%	1,162,950	-	(67,950)	1,095,000
Lincoln school.....	4.26%	490,200	-	(30,200)	460,000
Drainage.....	4.25%	57,000	-	(7,000)	50,000
Ambrose school.....	4.24%	1,660,000	-	(90,000)	1,570,000
Building remodeling & plans.....	4.25%	412,850	-	(52,850)	360,000
School remodeling.....	4.13%	-	2,968,000	-	2,968,000
School classrooms.....	4.08%	-	1,110,000	-	1,110,000
McCall middle school design.....	4.18%	-	562,000	-	562,000
Building remodeling and plans.....	4.15%	-	128,000	-	128,000
Recycling center planning.....	3.94%	-	110,000	-	110,000
McCall middle school addition.....	4.21%	-	100,000	-	100,000
Public safety building.....	4.21%	-	500,000	-	500,000
Town Hall.....	4.20%	-	300,000	-	300,000
Sub-total.....		38,303,280	5,778,000	(2,886,242)	41,195,038
Deferred loss on refundings.....		(165,067)	-	36,734	(128,333)
Total governmental funds, net.....		<u>\$ 38,138,213</u>	<u>\$ 5,778,000</u>	<u>\$ (2,849,508)</u>	<u>\$ 41,066,705</u>

Debt service requirements (gross) for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 2,729,790	\$ 1,584,135	\$ 4,313,925
2010.....	3,062,988	1,589,826	4,652,814
2011.....	2,978,586	1,471,884	4,450,470
2012.....	2,939,075	1,353,723	4,292,798
2013.....	2,918,821	1,232,653	4,151,474
2014.....	2,814,500	1,113,115	3,927,615
2015.....	2,804,626	995,255	3,799,881
2016.....	2,623,476	879,786	3,503,262
2017.....	2,612,101	766,887	3,378,988
2018.....	2,571,381	651,761	3,223,142
2019.....	2,459,741	536,738	2,996,479
2020.....	2,454,181	425,304	2,879,485
2021.....	2,349,181	317,723	2,666,904
2022.....	1,385,539	233,987	1,619,526
2023.....	1,380,539	171,748	1,552,287
2024.....	1,259,110	111,706	1,370,816
2025.....	1,244,110	54,273	1,298,383
2026.....	429,110	16,532	445,642
2027.....	74,028	6,220	80,248
2028.....	70,386	3,060	73,446
2029.....	33,769	760	34,529
Total.....	\$ <u>41,195,038</u>	\$ <u>13,517,076</u>	\$ <u>54,712,114</u>

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
Water mains.....	5.20%	\$ 694,500	\$ -	\$ (231,500)	\$ 463,000
Water mains II.....	5.19%	132,000	-	(44,000)	88,000
Water department equipment.....	4.66%	60,000	-	(20,000)	40,000
Water (MWRA).....	0.00%	66,000	-	(11,000)	55,000
Water treatment facility refunding...	3.50%	2,739,845	-	(367,133)	2,372,712
MWPAT.....	4.96%	48,079	-	(4,007)	44,072
Drainage.....	4.44%	2,700,000	-	(150,000)	2,550,000
Departmental equipment.....	3.88%	96,000	-	(96,000)	-
Water mains refunding.....	3.81%	2,515,250	-	(28,200)	2,487,050
Water mains II refunding.....	3.81%	447,125	-	(4,925)	442,200
Water (MWRA).....	0.00%	499,671	-	(55,519)	444,152
Drainage.....	4.46%	2,149,000	-	(114,000)	2,035,000
Sub-total.....		12,147,470	-	(1,126,284)	11,021,186
Deferred loss on refundings.....		(378,294)	-	97,527	(280,767)
Total enterprise fund, net.....		\$ 11,769,176	\$ -	\$ (1,028,757)	\$ 10,740,419

Debt service requirements (gross) for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009.....	\$ 1,020,736	\$ 403,302	\$ 1,424,038
2010.....	1,014,232	366,518	1,380,750
2011.....	982,983	331,544	1,314,527
2012.....	972,494	298,018	1,270,512
2013.....	965,886	267,011	1,232,897
2014.....	944,207	228,705	1,172,912
2015.....	909,080	194,104	1,103,184
2016.....	605,230	165,712	770,942
2017.....	546,086	143,469	689,555
2018.....	531,806	121,494	653,300
2019.....	528,446	99,685	628,131
2020.....	520,000	77,945	597,945
2021.....	255,000	61,695	316,695
2022.....	255,000	50,318	305,318
2023.....	255,000	38,500	293,500
2024.....	255,000	26,629	281,629
2025.....	255,000	14,693	269,693
2026.....	105,000	6,481	111,481
2027.....	100,000	2,125	102,125
Total.....	\$ <u>11,021,186</u>	\$ <u>2,897,948</u>	\$ <u>13,919,134</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan (payable in five equal annual installments). At June 30, 2008, the outstanding principal amount of these loans totaled \$499,152.

During fiscal year 2008, the Town issued \$5,778,000, in general obligation bonds. The proceeds were used for school remodeling, school classrooms, McCall middle school design, building remodeling and plans, recycling center planning, McCall middle school addition, public safety building and town hall remodeling.

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2008, the Town had the following authorized and unissued debt:

Purpose	Amount
Land acquisition.....	\$ 14,100,000
School remodeling and construction.....	7,263,901
Town hall, veterans memorial and other repairs.....	1,800,336
Public safety building.....	1,056,000
Sewer system reconstruction.....	796,000
Roads.....	550,000
Transfer station.....	390,000
Winning farm.....	300,000
Library repairs.....	200,000
Water system reconstruction.....	180,748
Total.....	\$ 26,636,985

Changes in Long-Term Liabilities

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

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion
Governmental Activities:					
Bonds and notes payable, gross...	\$ 38,303,280	\$ 5,778,000	\$ (2,886,242)	\$ 41,195,038	\$ 2,729,790
Unamortized deferred loss on refundings.....	(165,067)	-	36,734	(128,333)	(36,734)
Bonds and notes payable, net.....	38,138,213	5,778,000	(2,849,508)	41,066,705	2,693,056
Workers' compensation claims....	241,335	32,416	(88,408)	185,343	147,282
Compensated absences.....	775,604	73,438	-	849,042	84,904
Total.....	\$ 39,155,152	\$ 5,883,854	\$ (2,937,916)	\$ 42,101,090	\$ 2,925,242
Business-type Activities:					
Bonds and notes payable, gross...	\$ 12,147,470	\$ -	\$ (1,126,284)	\$ 11,021,186	\$ 1,020,736
Unamortized deferred loss on refundings.....	(378,294)	-	97,527	(280,767)	(97,527)
Bonds and notes payable, net.....	11,769,176	-	(1,028,757)	10,740,419	923,209
Compensated absences.....	92,936	-	(52,330)	40,606	4,060
Total.....	\$ 11,862,112	\$ -	\$ (1,081,087)	\$ 10,781,025	\$ 927,269

The governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 - STABILIZATION FUND

At June 30, 2008, \$9,037,536 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements. Of the total stabilization fund balance, \$1,034,389 can be used for general and/or capital purposes, \$7,386,425 can be used for building renovations/reconstruction, and \$616,722 can be used for capital improvements.

NOTE 10 - RISK FINANCING

The Town 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 Town carries commercial insurance. The Town participates in a premium-based health-care plan for its active and retired employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town is self-insured for its workers' compensation and unemployment activities. These activities are accounted for in the general fund where expenses are recorded when incurred.

Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The liability at June 30, 2008, totaled \$185,343. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2007.....	\$ 255,472	\$ 171,365	\$ (185,502)	\$ 241,335
Fiscal year 2008.....	241,335	32,416	(88,408)	185,343

The Town's liability for unemployment claims is immaterial at June 30, 2008, and therefore is not reported.

NOTE 11 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Winchester Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Commonwealth's Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Winchester Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 71 Mount Vernon Street, Winchester, Massachusetts, 01890.

Plan Membership - At December 31, 2007, the System's membership consists of the following:

Active members.....	362
Inactive members.....	78
Retirees and beneficiaries currently receiving benefit	<u>304</u>
Total.....	<u><u>744</u></u>

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the Town. 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 system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,756,928, \$2,490,925, and \$2,263,394, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 98% of the total. At June 30, 2008, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2007, actuarial valuation using the entry age normal actuarial cost method.

Funded Status and Funding Progress - The funded status of the plan at January 1, 2007, the most recent actuarial valuation date, is as follows:

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)
01/01/07	\$ 73,230,482	\$ 89,817,508	\$ 16,587,026	81.5%	\$ 15,863,491	104.6%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2007
Actuarial cost method:	Entry age normal
Amortization method:	1.5% increasing
Remaining amortization period:	14 years
Asset valuation method:	Actuarial value, 5-year smoothing

Actuarial assumptions:

Investment rate of return:	8.00%
Projected salary increases:	4.75%, 5.00% and 5.25% for groups 1, 2, and 4 respectively
Cost of living adjustments:	3.00%
Interest rate credited to the annuity savings fund:	3.50%

Legally Required Reserve Accounts - The balance in the System’s legally required reserves as of December 31, 2007, are as follows:

Description	Amount	Purpose
Annuity Savings Fund.. \$	15,553,699	Active members' contribution balance
Annuity Reserve Fund..	4,980,305	Retired members' contribution account
Military Fund.....	6,134	Military leave of absence contribution balance
Pension Reserve Fund...	66,985,812	Amounts appropriated to fund future retirement
Pension Fund.....	<u>1,026,349</u>	Remaining net assets
Total..... \$	<u><u>88,552,299</u></u>	

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2008 totaled approximately \$59,000.

NOTE 12 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$6,670,000 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 13 - COMMITMENTS

Hamilton Farm

Purchase and Sale Agreements

During fiscal year 2008, the Town completed the \$14,000,000 purchase of two properties (78 Ridge Street and 82 Ridge Street) referred to as Hamilton Farm. Also during fiscal year 2008, the Town (the “Seller”) entered into two purchase and sale agreements (the “Agreements”) to sell Hamilton Farm (excluding the historical buildings and raspberry patch located on the property) to a real estate development company (hereinafter referred to as the “Buyer”) for \$14,100,000. The Agreements provide for the following regarding the purchase price:

A deposit of \$800,000 upon execution of the Agreement, which occurred during fiscal year 2008.

- An additional deposit of \$800,000 if the closing has not occurred by June 1, 2008. This deposit was received during fiscal year 2008.
- An additional deposit of \$800,000 if the closing has not occurred by June 1, 2009.
- An additional deposit of \$800,000 if the closing has not occurred by June 1, 2010.
- The unpaid balance of the purchase price is to be paid at the time of closing.

The deposits are being used by the Town to pay down the outstanding BAN's associated with the purchase of Hamilton Farm (see Note 7). At June 30, 2008, the Town had received deposits totaling \$1,600,000 from the Buyer. These deposits are recorded as deferred revenue in the governmental funds financial statements and unearned revenue in the government-wide financial statements.

All payments received by the Town from the Buyer are non-refundable, except on default by the Town under the terms of the Agreements or as otherwise described in the Agreements.

Development Agreement

Simultaneously with the execution of the purchase and sale agreement, the Town and Buyer entered into a Development Agreement (DA). The DA, among other things, stipulates the following:

- At the time the Buyer applies for Plan Approval (as required by the Town's zoning by-laws), the Buyer must provide a \$25,000 deposit (hereinafter referred to as the Comprehensive Plan Escrow Account). These funds are to be used by the Town's Planning Board to contract with a traffic engineer, civil engineer, attorney, landscape architect, urban designer and other consultants to provide technical assistance during the review of the Comprehensive Plan. This deposit must be replenished when the Comprehensive Plan Escrow Account falls below \$5,000.
- Prior to the issuance of a building permit, the Buyer must provide a \$120,000 payment for the purpose of conducting a sewer study. This payment was received during fiscal year 2008.
- At the time of the closing, the Buyer must provide a \$620,000 payment for the purpose of promoting affordable housing in the Town.
- At the time of the closing, the Buyer must provide a \$200,000 mitigation payment for the purpose of endowing the maintenance and use of the conservation area associated with the property.

These payments are in addition to the purchase price of \$14,100,000.

Other

The Town has also entered into, or is planning to enter into, contracts totaling approximately \$12,500,000 for school remodeling, sewer system reconstruction, public safety and other governmental projects.

NOTE 14 - CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2008, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2008.

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2008, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 15 - RECLASSIFICATIONS

The following changes have been made to beginning fund balances and net assets:

	Hamilton Farm Purchase	Nonmajor Governmental Funds
Fund balances at June 30, 2007, as previously reported.....	\$ -	\$ 7,099,501
To reclassify Hamilton Farm Purchase to a major fund.....	<u>(257,828)</u>	<u>257,828</u>
Fund balances at June 30, 2007, as restated.....	<u>\$ (257,828)</u>	<u>\$ 7,357,329</u>

NOTE 16 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The implementation of this Statement had no impact on the financial statements.
- Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The implementation of this Statement had no impact on the financial statements.
- Statement #50, *Pension Disclosures*. This Statement enhances pension disclosures in the notes to financial statements (see pages 54-56) and required supplementary information (see page 64) by state and local government employers that provide pension benefits.

NOTE 17 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented during fiscal year 2010. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented during fiscal year 2010. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented by their respective due dates.

This page left intentionally blank.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 57,322,620	\$ (188,395)	\$ 57,134,225
Motor vehicle and other excise taxes.....	-	2,960,000	-	2,960,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	-	-	-
Trash disposal.....	-	1,400,000	-	1,400,000
Intergovernmental.....	-	7,341,766	-	7,341,766
Special assessments.....	-	40,000	-	40,000
Penalties and interest on taxes.....	-	350,000	-	350,000
Licenses, permits and fees.....	-	1,999,000	-	1,999,000
Fines and forfeitures.....	-	60,000	-	60,000
Departmental.....	-	95,000	-	95,000
Investment income.....	-	700,000	-	700,000
TOTAL REVENUES.....	-	72,268,386	(188,395)	72,079,991
EXPENDITURES				
Current:				
General government.....	1,015,413	5,856,805	-	6,872,218
Public safety.....	67,641	7,594,103	-	7,661,744
Education.....	867,994	30,538,114	(188,395)	31,217,713
Public works.....	998,943	6,385,883	-	7,384,826
Health and human services.....	25,446	454,605	-	480,051
Culture and recreation.....	8,008	1,597,620	-	1,605,628
Pension benefits.....	-	2,885,840	-	2,885,840
Employee benefits.....	10,575	8,980,048	(134,608)	8,856,015
Property and liability insurance.....	-	325,000	-	325,000
State and county charges.....	-	455,830	-	455,830
Debt service:				
Principal.....	-	2,890,249	-	2,890,249
Interest.....	-	1,715,197	-	1,715,197
TOTAL EXPENDITURES.....	2,994,020	69,679,294	(323,003)	72,350,311
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,994,020)	2,589,092	134,608	(270,320)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	2,839,028	77,000	2,916,028
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(6,547,825)	(134,608)	(6,682,433)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(3,708,797)	(57,608)	(3,766,405)
NET CHANGE IN FUND BALANCE.....	(2,994,020)	(1,119,705)	77,000	(4,036,725)
FUND BALANCE AT BEGINNING OF YEAR.....	10,624,603	10,624,603	10,624,603	10,624,603
FUND BALANCE AT END OF YEAR.....	\$ 7,630,583	\$ 9,504,898	\$ 10,701,603	\$ 6,587,878

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	56,969,440	\$ -	\$ 56,969,440	\$ (164,785)
	2,969,737	-	2,969,737	9,737
	221,463	-	221,463	221,463
	30,000	-	30,000	30,000
	1,377,182	-	1,377,182	(22,818)
	7,831,283	-	7,831,283	489,517
	56,187	-	56,187	16,187
	156,896	-	156,896	(193,104)
	1,902,118	-	1,902,118	(96,882)
	207,310	-	207,310	147,310
	179,676	-	179,676	84,676
	734,080	-	734,080	34,080
	<u>72,635,372</u>	<u>-</u>	<u>72,635,372</u>	<u>555,381</u>
	5,649,923	794,549	6,444,472	427,746
	7,511,423	28,070	7,539,493	122,251
	30,412,488	770,398	31,182,886	34,827
	6,359,592	572,416	6,932,008	452,818
	462,296	1,795	464,091	15,960
	1,541,788	36,090	1,577,878	27,750
	2,870,700	-	2,870,700	15,140
	8,339,656	53,363	8,393,019	462,996
	324,966	-	324,966	34
	459,950	-	459,950	(4,120)
	-	-	-	-
	2,886,242	-	2,886,242	4,007
	1,769,136	-	1,769,136	(53,939)
	<u>68,588,160</u>	<u>2,256,681</u>	<u>70,844,841</u>	<u>1,505,470</u>
	<u>4,047,212</u>	<u>(2,256,681)</u>	<u>1,790,531</u>	<u>2,060,851</u>
	2,916,028	-	2,916,028	-
	56,347	-	56,347	56,347
	<u>(6,682,433)</u>	<u>-</u>	<u>(6,682,433)</u>	<u>-</u>
	<u>(3,710,058)</u>	<u>-</u>	<u>(3,710,058)</u>	<u>56,347</u>
	337,154	(2,256,681)	(1,919,527)	2,117,198
	<u>10,624,603</u>	<u>10,624,603</u>	<u>10,624,603</u>	<u>-</u>
\$	<u>10,961,757</u>	<u>\$ 8,367,922</u>	<u>\$ 8,705,076</u>	<u>\$ 2,117,198</u>

The following schedules provide information related to the System as a whole, for which the Town is one participating employer:

SCHEDULES OF FUNDING PROGRESS

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)
01/01/07	\$ 73,230,482	\$ 89,817,508	\$ 16,587,026	81.5%	\$ 15,863,491	104.6%
01/01/05	62,508,562	82,704,690	20,196,128	75.6%	14,092,068	143.3%
01/01/03	56,841,465	72,026,915	15,185,450	78.9%	13,361,418	113.7%
01/01/01	55,668,572	62,489,235	6,820,663	89.1%	12,543,350	54.4%
01/01/98	43,201,137	53,156,586	9,955,449	81.3%	11,346,023	87.7%
01/01/96	32,443,000	44,926,000	12,483,000	72.2%	9,953,000	125.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2002	\$ 2,125,212	100
2003	2,196,198	100
2004	2,494,319	100
2005	2,550,336	100
2006	2,800,000	100
2007	3,100,000	100

The following schedule provides information related to the Town's portion of the System's ARC:

TOWN SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2003	\$ 2,089,849	100	98.3%
2004	2,167,614	100	98.7%
2005	2,460,851	100	98.7%
2006	2,514,882	100	98.6%
2007	2,767,695	100	98.8%
2008	3,063,805	100	98.8%

Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2008, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 72,635,372	\$ 70,844,841	\$ (3,710,058)
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(49,704)	-	-
Net change in recording tax refunds payable.....	(45,035)	-	-
To record MTRS on-behalf payments.....	6,670,343	6,670,343	-
Net change in recording other revenues.....	5,755	-	-
Net change in recording short-term interest accrual.....	-	571,051	-
Net change in recording other expenditures.....	-	(55,992)	-
To record encumbrances and continuing appropriations.....	-	(2,256,681)	-
Total adjustments.....	79,216,731	75,773,562	(3,710,058)
<u>Reclassifications</u>			
To remove transfer to workers' compensation fund since risk financing activity is accounted for in the general fund.....	-	-	134,608
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>79,216,731</u>	\$ <u>75,773,562</u>	\$ <u>(3,575,450)</u>