

TOWN OF WATERTOWN, MASSACHUSETTS

Annual Financial Report

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Governmental-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to Financial Statements	22

PAGE

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule of Funding Progress 47

OTHER SUPPLEMENTARY INFORMATION:

Schedule of Revenues and Expenditures, and Other Uses -
Budget and Actual - Water Enterprise Fund 48

Schedule of Revenues and Expenditures, and Other Uses -
Budget and Actual - Sewer Enterprise Fund 49



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INDEPENDENT AUDITORS' REPORT

To the Town Manager and Town Council
Town of Watertown, 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 Watertown, Massachusetts, as of and for the year ended June 30, 2009, (except for the Watertown Contributory System which is as of and for the year-ended December 31, 2008), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Watertown's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Watertown as of June 30, 2009, (except for the Watertown Contributory System which is as of and for the year-ended December 31, 2008), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

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

The management's discussion and analysis, appearing on the following pages and the supplementary information appearing on page 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In addition, the schedules appearing on pages 48 and 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Watertown, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2010 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Watertown, we offer readers this narrative overview and analysis of the financial activities of the Town of Watertown for the fiscal year ended June 30, 2009. Unless otherwise noted, all amounts reported in this analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, education, public safety, public works, human services, recreation, and libraries. The business-type activities include water and sewer activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 93,962 (i.e., net assets), a change of \$ (7,819) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 30,293, a change of \$ 5,749 in comparison to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,149, a change of \$ (1,681) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 48,599, a change of \$ 12,401 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 46,157	\$ 41,690	\$ 14,487	\$ 14,395	\$ 60,644	\$ 56,085
Capital assets	89,723	87,417	3,600	2,742	93,323	90,159
Total assets	<u>135,880</u>	<u>129,107</u>	<u>18,087</u>	<u>17,137</u>	<u>153,967</u>	<u>146,244</u>
Long-term liabilities outstanding	54,467	38,019	506	277	54,973	38,296
Other liabilities	4,873	5,589	159	578	5,032	6,167
Total liabilities	<u>59,340</u>	<u>43,608</u>	<u>665</u>	<u>855</u>	<u>60,005</u>	<u>44,463</u>
Net assets:						
Invested in capital assets, net	41,199	49,778	3,176	2,836	44,375	52,614
Restricted	5,635	5,594	-	-	5,635	5,594
Unrestricted	<u>29,706</u>	<u>30,127</u>	<u>14,246</u>	<u>13,446</u>	<u>43,952</u>	<u>43,573</u>
Total net assets	<u>\$ 76,540</u>	<u>\$ 85,499</u>	<u>\$ 17,422</u>	<u>\$ 16,282</u>	<u>\$ 93,962</u>	<u>\$ 101,781</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues:						
Program revenues						
Charges for services	\$ 6,015	\$ 6,555	\$ 12,767	\$ 14,441	\$ 18,782	\$ 20,996
Operating grants and contributions	12,829	12,031	-	-	12,829	12,031
Capital grants and contributions	-	456	-	240	-	696
General revenues:						
Property taxes (including penalties and interest)	68,479	66,480	-	-	68,479	66,480
Excises	3,444	3,870	-	-	3,444	3,870
Grants and contributions not restricted to specific programs	10,314	11,265	-	-	10,314	11,265
Investment income	688	932	51	164	739	1,096
Miscellaneous	1,270	574	-	-	1,270	574
Total revenues	103,039	102,163	12,818	14,845	115,857	117,008
Expenses:						
General government	6,653	7,306	-	-	6,653	7,306
Public safety	27,942	22,499	-	-	27,942	22,499
Education	58,783	54,925	-	-	58,783	54,925
Public works	13,001	11,629	-	-	13,001	11,629
Health and human services	1,470	1,397	-	-	1,470	1,397
Recreation	2,000	1,865	-	-	2,000	1,865
Libraries	3,396	3,201	-	-	3,396	3,201
Transportation	1,036	1,979	-	-	1,036	1,979
Miscellaneous	67	128	-	-	67	128
Water services	-	-	3,807	3,638	3,807	3,638
Sewer services	-	-	5,521	5,351	5,521	5,351
Total expenses	114,348	104,929	9,328	8,989	123,676	113,918
Change in net assets before transfers	(11,309)	(2,766)	3,490	5,856	(7,819)	3,090
Transfers in (out)	2,350	2,287	(2,350)	(2,287)	-	-
Increase(decrease) in net assets	(8,959)	(479)	1,140	3,569	(7,819)	3,090
Net assets - beginning of year	85,499	85,978	16,282	12,713	101,781	98,691
Net assets - end of year	\$ <u>76,540</u>	\$ <u>85,499</u>	\$ <u>17,422</u>	\$ <u>16,282</u>	\$ <u>93,962</u>	\$ <u>101,781</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 93,962, a change of \$ (7,819) from the prior year.

The largest portion of net assets \$ 44,375 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 5,635 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 43,952 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (8,959). Key elements of this change are as follows:

General fund operating results, as disclosed in section D	\$ (3,973)
Major fund - streets and sidewalks repair - accrual basis	(134)
Major fund - Police station construction - accrual basis	141
Nonmajor funds - accrual basis	1,871
Excess depreciation expense overdraft service principal payments	(1,985)
Change in MSBA intergovernmental receivable	(982)
Unfunded OPEB liability	(3,839)
Other	<u>(58)</u>
Total	<u>\$ (8,959)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 1,140, primarily due to unspent appropriations and increase in water and sewer rates.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 30,293, a change of \$ 5,749 in comparison to the prior year. Key elements of this change are as follows:

	Governmental Funds
General fund operating results, as disclosed below	\$ (3,973)
Major fund - street and sidewalk repair fund operating results	3,932
Major fund - police station construction fund operating results	5,951
Nonmajor funds operating results	<u>(161)</u>
Total	<u>\$ 5,749</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,149 while total fund balance was \$ 9,045. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.1 percent of total general fund expenditures, while total fund balance represents 8.9 percent of that same amount.

The total fund balance of the general fund changed by \$ (3,973) during the current fiscal year. Key factors in this change are as follows:

	Governmental Funds
Revenues short of budget	\$ (1,535)
Budget expenditures in excess of budget	1,954
Property tax collection exceeding (less than) net tax levy	(197)
Use of free cash as funding source	(2,250)
Timing of prior year encumbrances over prior year	(1,950)
Other	<u>5</u>
Total	<u>\$ (3,973)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 14,246, a change of \$ 800 in comparison to the prior year. Total net assets of the enterprise funds at the end of the year amounted to \$ 17,422, a change of \$ 1,140 in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 132.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 93,323 (net of accumulated depreciation), a change of \$ 3,164 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, vehicles, construction in progress, and infrastructure.

Major capital asset events during the current fiscal year included:

- Ongoing police station construction
- Ongoing street and sidewalk improvements
- Vehicles for the police and public works departments
- Purchase of new radio - read water/sewer meters

Change in credit rating. The Town of Watertown maintains an "Aa3" rating from Moody's for general obligation debt.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 48,599, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the notes to financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Watertown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town Manager
Town of Watertown, Massachusetts
149 Main Street
Watertown, Massachusetts 02472

TOWN OF WATERTOWN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 31,714,567	\$ 11,158,454	\$ 42,873,021
Investments	2,429,078	-	2,429,078
Receivables, net of allowance for uncollectibles:			
Property taxes	1,309,838	-	1,309,838
Excises	321,849	-	321,849
User fees	-	3,328,974	3,328,974
Charges for services	49,471	-	49,471
Intergovernmental	1,797,817	-	1,797,817
Refinancing incentive	52,500	-	52,500
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	255,683	-	255,683
Intergovernmental	7,858,953	-	7,858,953
Refinancing incentive	367,500	-	367,500
Capital assets:			
Land and construction in progress	15,111,949	575,507	15,687,456
Other capital assets, net of accumulated depreciation	<u>74,611,642</u>	<u>3,024,679</u>	<u>77,636,321</u>
TOTAL ASSETS	135,880,847	18,087,614	153,968,461
LIABILITIES			
Current:			
Warrants payable	1,666,380	-	1,666,380
Accounts payable	125,617	-	125,617
Accrued liabilities	1,194,488	-	1,194,488
Refunds payable	1,291,444	159,414	1,450,858
Notes payable	350,000	-	350,000
Other current liabilities	245,560	-	245,560
Current portion of long-term liabilities:			
Bonds payable	5,315,000	153,333	5,468,333
Accrued employee benefits	122,666	-	122,666
Noncurrent:			
Bonds payable, net of current portion	42,860,000	270,990	43,130,990
Accrued employee benefits, net of current portion	2,330,654	-	2,330,654
OPEB liability	<u>3,838,969</u>	<u>81,393</u>	<u>3,920,362</u>
TOTAL LIABILITIES	59,340,778	665,130	60,005,908
NET ASSETS			
Invested in capital assets, net of related debt	41,198,591	3,175,863	44,374,454
Restricted for:			
Grants and other statutory restrictions	4,279,563	-	4,279,563
Permanent funds:			
Nonexpendable	964,636	-	964,636
Expendable	391,342	-	391,342
Unrestricted	<u>29,705,937</u>	<u>14,246,621</u>	<u>43,952,558</u>
TOTAL NET ASSETS	\$ <u>76,540,069</u>	\$ <u>17,422,484</u>	\$ <u>93,962,553</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 6,652,822	\$ 139,802	\$ -	\$ (5,759,436)	\$ -	\$ (5,759,436)
Public safety	27,942,345	464,701	-	(24,976,592)	-	(24,976,592)
Education	58,783,133	11,808,684	-	(45,088,181)	-	(45,088,181)
Public works	13,001,108	11,250	-	(12,839,689)	-	(12,839,689)
Health and human services	1,470,079	289,060	-	(1,081,057)	-	(1,081,057)
Recreation	2,000,510	-	-	(1,423,534)	-	(1,423,534)
Libraries	3,395,556	114,817	-	(3,233,646)	-	(3,233,646)
Transportation	1,036,357	-	-	(1,036,357)	-	(1,036,357)
Miscellaneous	67,030	525	-	(66,505)	-	(66,505)
Total Governmental Activities	114,348,940	12,828,839	-	(95,504,997)	-	(95,504,997)
Business-Type Activities:						
Water services	3,806,653	-	-	-	1,173,250	1,173,250
Sewer services	5,520,709	-	-	-	2,266,753	2,266,753
Total Business-Type Activities	9,327,362	-	-	-	3,440,003	3,440,003
Total	\$ 123,676,302	\$ 18,782,469	\$ 12,828,839	\$ (95,504,997)	\$ 3,440,003	\$ (92,064,994)
General Revenues and Transfers:						
Property taxes				66,181,633	-	66,181,633
Excises				3,443,836	-	3,443,836
Penalties, interest and other taxes				2,297,672	-	2,297,672
Grants and contributions not restricted to specific programs				10,314,043	-	10,314,043
Investment income				688,018	50,541	738,559
Miscellaneous				1,270,237	-	1,270,237
Transfers, net				2,350,086	(2,350,086)	-
Total general revenues and transfers				86,545,525	(2,299,545)	84,245,980
Change in Net Assets				(8,959,472)	1,140,458	(7,819,014)
Net Assets:						
Beginning of year				85,499,541	16,282,026	101,781,567
End of year				\$ 76,540,069	\$ 17,422,484	\$ 93,962,553

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General	Streets, Sidewalks, Repair Fund	Police Station Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 13,360,804	\$ 3,932,260	\$ 5,558,344	\$ 8,863,159	\$ 31,714,567
Investments	-	-	-	-	-
Receivables:					
Property taxes	1,640,988	-	-	-	1,640,988
Excises	402,746	-	-	-	402,746
Intergovernmental	-	-	-	815,447	815,447
Charges for service	93,170	-	-	-	93,170
TOTAL ASSETS	\$ 15,497,708	\$ 3,932,260	\$ 5,558,344	\$ 12,107,684	\$ 37,095,996

LIABILITIES AND FUND BALANCES

Liabilities:	\$ 1,791,997	\$ -	\$ -	\$ -	\$ 1,791,997
Warrants payable	986,608	-	-	-	986,608
Accrued liabilities	2,136,904	-	-	-	2,136,904
Deferred revenues	1,291,444	-	-	-	1,291,444
Tax refunds payable	-	-	-	350,000	350,000
Notes payable	245,560	-	-	-	245,560
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	6,452,513	-	-	350,000	6,802,513
Fund Balances:					
Reserved for:					
Encumbrances	1,646,211	-	-	317,092	1,963,303
Expenditures	2,250,000	-	-	-	2,250,000
Perpetual (nonexpendable) permanent funds	-	-	-	964,636	964,636
Unreserved:					
Undesignated, reported in:					
General fund	5,148,984	-	-	-	5,148,984
Special revenue funds	-	-	-	8,015,786	8,015,786
Capital project funds	-	3,932,260	5,558,344	2,068,828	11,559,432
Permanent funds	-	-	-	391,342	391,342
TOTAL FUND BALANCES	9,045,195	3,932,260	5,558,344	11,757,684	30,293,483
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,497,708	\$ 3,932,260	\$ 5,558,344	\$ 12,107,684	\$ 37,095,996

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND
 BALANCES TO NET ASSETS OF GOVERNMENTAL
 ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2009

Total governmental fund balances		\$ 30,293,483
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	89,723,591	
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	1,936,841	
<ul style="list-style-type: none"> • Noncurrent assets, including MSBA reimbursements for contracted assistance projects, are not receivable in the current period and, therefore, are not reported in the governmental funds. 	9,261,323	
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(207,880)	
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	<u>(54,467,289)</u>	
Net assets of governmental activities		<u>\$ 76,540,069</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009

	General	Streets, Sidewalks, Repair Fund	Police Station Construction Fund	AFRA Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 66,436,611	-	-	-	-	\$ 66,436,611
Excise taxes	3,275,537	-	-	-	-	3,275,537
Penalties, interest and other taxes	2,308,380	-	-	-	-	2,308,380
Charges for services	2,074,479	-	-	366,634	2,643,861	4,718,340
Intergovernmental	19,517,658	-	-	-	3,669,505	23,753,797
Licenses and permits	216,315	-	-	-	56,518	216,315
Departmental	-	-	-	-	-	56,518
Fines and forfeitures	1,023,931	-	-	-	124,233	1,023,931
Investment income	563,785	4,400,000	-	-	371,455	5,088,018
Contributions	-	-	-	-	565,485	371,455
Miscellaneous	704,752	-	-	366,634	-	1,270,237
Total Revenues	<u>96,121,448</u>	<u>4,400,000</u>	<u>-</u>	<u>366,634</u>	<u>7,631,057</u>	<u>108,519,139</u>
Expenditures:						
Current						
General government	3,921,878	-	-	-	251,374	4,173,252
Public safety	17,283,332	-	4,728,746	-	828,454	22,840,532
Education	31,451,060	-	-	366,634	6,414,797	38,232,491
Public works	9,033,657	1,367,740	-	-	1,076,749	11,478,146
Health and human services	821,914	-	-	-	158,310	980,224
Recreation	535,724	-	-	-	203,956	739,680
Libraries	2,088,502	-	-	-	75,109	2,163,611
Pension	15,072,472	-	-	-	-	15,072,472
Employee benefits	13,245,487	-	-	-	-	13,245,487
Miscellaneous	57,030	-	-	-	-	57,030
Debt service	5,295,996	-	-	-	-	5,295,996
Intergovernmental	2,081,594	-	-	-	-	2,081,594
Total Expenditures	<u>100,898,586</u>	<u>1,367,740</u>	<u>4,728,746</u>	<u>366,634</u>	<u>9,008,749</u>	<u>116,370,455</u>
Excess (deficiency) of revenues over expenditures	(4,777,138)	3,032,260	(4,728,746)	-	(1,377,692)	(7,851,316)
Other Financing Sources (Uses):						
Bond issuance	-	-	10,539,000	-	711,000	11,250,000
Transfers in	3,577,056	900,000	141,000	-	1,660,059	6,278,115
Transfers out	(2,773,138)	-	-	-	(1,154,891)	(3,928,029)
Total Other Financing Sources (Uses)	<u>803,918</u>	<u>900,000</u>	<u>10,680,000</u>	<u>-</u>	<u>1,216,168</u>	<u>13,600,086</u>
Change in fund balance	(3,973,220)	3,932,260	5,951,254	-	(161,524)	5,748,770
Fund Equity, at Beginning of Year	<u>13,018,415</u>	<u>-</u>	<u>(392,910)</u>	<u>-</u>	<u>11,919,208</u>	<u>24,544,713</u>
Fund Equity, at End of Year	<u>\$ 9,045,195</u>	<u>\$ 3,932,260</u>	<u>\$ 5,558,344</u>	<u>\$ -</u>	<u>\$ 11,757,684</u>	<u>\$ 30,293,483</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 5,748,770
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay purchases	7,806,250
Depreciation	(5,499,951)
<ul style="list-style-type: none"> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 	
	(97,387)
<ul style="list-style-type: none"> • Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. 	
	(982,370)
<ul style="list-style-type: none"> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Repayments of debt	3,515,000
Issuance of debt	(15,650,000)
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	93,805
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	
Compensated absences	(54,620)
OPEB liability	(3,838,969)
	<u>(3,838,969)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(8,959,472)</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	Budget	Budget		Positive
				(Negative)
Revenues and Other Sources:				
Property taxes	\$ 66,653,611	\$ 66,633,934	\$ 66,633,934	\$ -
Excise taxes	3,475,000	3,475,000	3,275,537	(199,463)
Interest, penalties, and other taxes	2,072,462	2,182,502	2,308,380	125,878
Intergovernmental	12,947,036	12,929,784	11,765,307	(1,164,477)
Licenses and permits	210,000	210,000	216,315	6,315
Charges for services	2,448,289	2,448,289	2,074,479	(373,810)
Fines and forfeitures	885,000	885,000	1,023,931	138,931
Interest earnings	1,075,000	1,075,000	563,785	(511,215)
Miscellaneous	394,000	453,036	704,752	251,716
Transfers in	3,150,486	3,150,486	3,340,956	190,470
Other sources	2,250,000	2,250,000	2,250,000	-
Total Revenues and Other Sources	95,560,884	95,693,031	94,157,376	(1,535,655)
Expenditures and Other Uses:				
General government	6,177,820	4,192,403	4,172,701	19,702
Public safety	13,850,919	15,299,168	15,160,111	139,057
Education	31,846,000	31,846,000	31,451,060	394,940
Public works	8,422,657	9,356,117	8,987,738	368,379
Health and human services	855,291	851,693	825,314	26,379
Recreation	558,161	541,955	533,827	8,128
Libraries	2,093,000	2,144,506	2,088,502	56,004
Pension	7,335,580	7,325,580	7,325,121	459
Employee benefits	12,631,880	13,353,713	13,239,848	113,865
Debt service	6,415,007	6,345,007	6,302,452	42,555
Intergovernmental	3,907,431	2,087,290	2,081,534	5,756
Miscellaneous	50,000	845,461	67,030	778,431
Transfers out	1,417,138	1,504,138	1,504,138	-
Total Expenditures and Other Uses	95,560,884	95,693,031	93,739,376	1,953,655
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 418,000	\$ 418,000

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<u>Business-Type Activities Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current:			
Cash and short-term investments	\$ 3,409,562	\$ 7,748,892	\$ 11,158,454
User fees, net of allowance for uncollectibles	<u>1,153,682</u>	<u>2,175,292</u>	<u>3,328,974</u>
Total current assets	4,563,244	9,924,184	14,487,428
Noncurrent:			
Capital assets:			
Land and construction in progress	-	575,507	575,507
Other capital assets, net of accumulated depreciation	<u>1,175,143</u>	<u>1,849,536</u>	<u>3,024,679</u>
Total noncurrent assets	<u>1,175,143</u>	<u>2,425,043</u>	<u>3,600,186</u>
TOTAL ASSETS	5,738,387	12,349,227	18,087,614
<u>LIABILITIES</u>			
Current:			
Refunds payable	159,414	-	159,414
Current portion of long-term liabilities:			
Bonds payable	<u>-</u>	<u>153,333</u>	<u>153,333</u>
Total current liabilities	159,414	153,333	312,747
Noncurrent:			
Bonds payable	-	270,990	270,990
OPEB Liability	<u>57,200</u>	<u>24,193</u>	<u>81,393</u>
Total noncurrent liabilities	<u>57,200</u>	<u>295,183</u>	<u>352,383</u>
TOTAL LIABILITIES	216,614	448,516	665,130
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,175,143	2,000,720	3,175,863
Unrestricted	<u>4,346,630</u>	<u>9,899,991</u>	<u>14,246,621</u>
TOTAL NET ASSETS	\$ <u>5,521,773</u>	\$ <u>11,900,711</u>	\$ <u>17,422,484</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Business-Type Activities Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for services	\$ <u>4,979,903</u>	\$ <u>7,787,462</u>	\$ <u>12,767,365</u>
Total Operating Revenues	4,979,903	7,787,462	12,767,365
Operating Expenses:			
Personnel expenses	733,897	345,115	1,079,012
Non-personnel	226,773	305,770	532,543
Intergovernmental assessments	2,683,187	4,748,683	7,431,870
Depreciation	<u>162,796</u>	<u>121,141</u>	<u>283,937</u>
Total Operating Expenses	<u>3,806,653</u>	<u>5,520,709</u>	<u>9,327,362</u>
Operating Income	1,173,250	2,266,753	3,440,003
Nonoperating Revenues (Expenses):			
Investment income	<u>15,781</u>	<u>34,760</u>	<u>50,541</u>
Total Nonoperating Revenues (Expenses), Net	<u>15,781</u>	<u>34,760</u>	<u>50,541</u>
Income Before Transfers	1,189,031	2,301,513	3,490,544
Transfers:			
Transfers in	152,000	44,500	196,500
Transfers out	<u>(1,271,009)</u>	<u>(1,275,577)</u>	<u>(2,546,586)</u>
Change in Net Assets	70,022	1,070,436	1,140,458
Net Assets at Beginning of Year	<u>5,451,751</u>	<u>10,830,275</u>	<u>16,282,026</u>
Net Assets at End of Year	<u>\$ 5,521,773</u>	<u>\$ 11,900,711</u>	<u>\$ 17,422,484</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds		Total
	Water Fund	Sewer Fund	
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 5,225,380	\$ 7,937,002	\$ 13,162,382
Payments to vendors and employees	(751,824)	(896,270)	(1,648,094)
Payments to other governments	<u>(2,683,187)</u>	<u>(4,748,683)</u>	<u>(7,431,870)</u>
Net Cash Provided By Operating Activities	1,790,369	2,292,049	4,082,418
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers in	152,000	44,500	196,500
Transfers out	<u>(1,271,009)</u>	<u>(1,275,577)</u>	<u>(2,546,586)</u>
Net Cash (Used For) Noncapital Financing Activities	(1,119,009)	(1,231,077)	(2,350,086)
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets, net of disposals	(50,000)	(1,092,471)	(1,142,471)
Principal payments on bonds and notes	<u>-</u>	<u>(153,333)</u>	<u>(153,333)</u>
Net Cash (Used for) Provided By Capital and Related Financing Activities	(50,000)	(1,245,804)	(1,295,804)
<u>Cash Flows From Investing Activities:</u>			
Investment income	<u>15,781</u>	<u>34,760</u>	<u>50,541</u>
Net Cash Provided By Investing Activities	<u>15,781</u>	<u>34,760</u>	<u>50,541</u>
Net Change in Cash and Short-Term Investments	637,141	(150,072)	487,069
Cash and Short-Term Investments, Beginning of Year	<u>2,772,421</u>	<u>7,898,964</u>	<u>10,671,385</u>
Cash and Short-Term Investments, End of Year	<u>\$ 3,409,562</u>	<u>\$ 7,748,892</u>	<u>\$ 11,158,454</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating income	\$ 1,173,250	\$ 2,266,753	\$ 3,440,003
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	162,796	121,142	283,938
Changes in assets and liabilities:			
User fees	245,477	149,540	395,017
Warrants payable	(7,768)	(269,579)	(277,347)
Other liabilities	<u>216,614</u>	<u>24,193</u>	<u>240,807</u>
Net Cash Provided By Operating Activities	<u>\$ 1,790,369</u>	<u>\$ 2,292,049</u>	<u>\$ 4,082,418</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Pension Trust Fund (As of <u>December 31, 2008</u>)	Private Purpose <u>Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 948,633	\$ 150,408	\$ (87,264)
Investments	70,257,716	25,044	-
Accounts receivable	<u>253,964</u>	<u>-</u>	<u>-</u>
Total Assets	71,460,313	175,452	(87,264)
<u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>83,318</u>	<u>-</u>	<u>(87,264)</u>
Total Liabilities	<u>83,318</u>	<u>-</u>	<u>(87,264)</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>71,376,995</u></u>	\$ <u><u>175,452</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

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

	Pension Trust Fund (For the Year Ended December 31, 2008)	Private Purpose Trust Funds
Additions:		
Contributions:		
Employers	\$ 7,422,874	\$ -
Other systems and Commonwealth of Massachusetts	678,001	-
Plan members	2,759,226	-
Other	<u>47,361</u>	<u>76,667</u>
Total contributions	10,907,462	76,667
Investment Income:		
Increase in fair value of investments	(24,569,536)	1,145
Less: management fees	<u>(566,764)</u>	<u>-</u>
Net investment income	<u>(25,136,300)</u>	<u>1,145</u>
Total additions	(14,228,838)	77,812
Deductions:		
Benefit payments to plan members and beneficiaries	9,505,671	-
Refunds to plan members	231,652	-
Administrative expenses	283,897	-
Other	<u>218,165</u>	<u>20,949</u>
Total deductions	<u>10,239,385</u>	<u>20,949</u>
Net increase	(24,468,223)	56,863
Net assets:		
Beginning of year	<u>95,845,218</u>	<u>118,589</u>
End of year	<u>\$ 71,376,995</u>	<u>\$ 175,452</u>

See notes to financial statements.

TOWN OF WATERTOWN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected Town Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The Watertown Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 149 Main Street, Watertown, Massachusetts 02472.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *street and sidewalk repair fund* accounts for the capital expenses and all financial resources being utilized for the street and sidewalk repair project.
- The *police station construction fund* accounts for the capital expenses and all financial resources being utilized for the police station construction.
- The *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded to the community to replace some of the fiscal year 2009 Chapter 70 state aid reductions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

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

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

The *agency funds* account for fiduciary assets is held by the Town in a custodial capacity as an agency on behalf of others.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

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

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2009 tax levy reflected an excess capacity of \$ 37,847.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 15,000 and an estimated useful life in excess of two

years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	20 - 50
Vehicles	5
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

During the fiscal year, the Town Manager submits to the Town Council an operating budget for the proposed expenditures for the fiscal year commencing the following July 1st. The budget, as enacted by the Town Council, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year as required by changing conditions. Formal budgetary integration is employed as a management control device during the year for the General Fund. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's Code of Ordinances.

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 96,121,448	\$ 100,898,586
Other financing sources/uses (GAAP basis)	<u>3,577,056</u>	<u>2,773,138</u>
Subtotal (GAAP Basis)	99,698,504	103,671,724
Adjust tax revenue to accrual basis	197,323	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,487,999)
Add end of year appropriation carryforwards to expenditures	-	963,390
To reverse the effect of non-budgeted State contributions for teachers retirement	(7,752,351)	(7,752,351)
Recognize other sources and uses	2,250,000	-
To reverse non-budgeted reclassifications	(236,100)	(660,945)
To reverse the effect of change in accruals	<u>-</u>	<u>5,557</u>
Budgetary basis	<u>\$ 94,157,376</u>	<u>\$ 93,739,376</u>

D. Deficit Fund Equity

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

Nonmajor Governmental Funds:

Library Renovations	\$ (314,310)
Massachusetts Cultural Council	\$ (220)
Yearbook - HS	\$ (352)
Professional Development	\$ (207)

The deficits in these funds will be eliminated through future departmental revenues, BAN proceeds, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

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

As of June 30, 2009, and December 31, 2008, \$ 35,664,634 and \$ 510,667 of the Town's and System's bank balances of \$ 44,609,414 and \$ 1,126,011, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Investments

A. Credit Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>
			<u>AAA</u>
U.S. Treasury notes	\$ 1,156	\$ -	\$ 1,156
Corporate equities	30	30	-
Federal agency securities	<u>1,243</u>	<u>199</u>	<u>1,044</u>
Total investments	\$ <u>2,429</u>	\$ <u>229</u>	\$ <u>2,200</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or

collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Corporate equities	\$ 11,057	\$ 11,057
Pooled domestic equity funds	2,543	2,543
Pooled international equity funds	2,954	2,954
Pooled domestic fixed income funds	10,197	10,197
Pooled alternative investments	3,144	3,144
Pooled real estate funds	9,470	9,470
PRIT*	<u>30,893</u>	<u>30,893</u>
Total investments	<u>\$ 70,258</u>	<u>\$ 70,258</u>

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

B. Custodial Credit Risk

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

Of the Town's investment in U.S. Treasury Notes of \$ 1,155,813, and Federal Agency Securities of \$ 1,243,275, the government has a custodial credit risk exposure of \$ 2,399,088 because the related securities are uninsured, unregistered and held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this risk with SIPC and excess SIPC coverage.

Of the System's investment in pooled funds of \$ 59,200,625, the government has a custodial credit risk exposure of \$ 59,200,625 because the related securities are uninsured, unregistered and held by the System's brokerage firm, which is also the Counterparty to these securities. The System manages this risk with investing in PRIT, having SIPC, excess SIPC and assets being held in separately identifiable trust accounts.

C. Concentration of Credit Risk

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

Federal National Mtg. Assn.	\$ 432,948	34.8%
Federal Home Loan Mtg. Corp.	604,889	48.7%
Federal Home Loan Bank	205,438	16.5%

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
U.S. Treasury notes	\$ 1,156	\$ 103	\$ 1,053	\$ -	\$ -
Federal agency securities	<u>1,243</u>	<u>50</u>	<u>994</u>	<u>191</u>	<u>8</u>
Total	<u>\$ 2,399</u>	<u>\$ 153</u>	<u>\$ 2,047</u>	<u>\$ 191</u>	<u>\$ 8</u>

E. Foreign Currency Risk

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

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes

are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2009 consist of the following (in thousands):

Property Taxes:

Real Estate

2009	\$ 950
2008	4
2007	<u>(7)</u>

947

Personal Property

2009	2
2008	13
2007 & prior	<u>21</u>

36

Tax Liens

462

Deferred Taxes

192

Tax Possessions

3

Total Property Taxes

\$ 1,640

Excise Taxes:

Motor Vehicle Excise

2009	\$ 195
2008	68
2007	47
2006	45
2005	37
Prior	<u>1</u>

393

Boat Excise

10

Total Excise Taxes:

\$ 403

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 75	\$ -
Excises	81	-
User fees	-	50
Charges for service	44	-

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2009, as well as funding to be provided by the Massachusetts School Building Authority for reimbursement of approved school capital project expenditures. Future receipt of MSBA payments are as follows:

2010	\$ 982,370
2011	982,370
2012	982,370
2013	982,370
2014	982,369
2015-2019	<u>3,929,474</u>
Total	<u>\$ 8,841,323</u>

8. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 91,280	\$ 213	\$ -	\$ 91,493
Machinery, equipment, and furnishings	2,163	571	-	2,734
Infrastructure	36,110	634	-	36,744
Vehicles	8,216	124	(138)	8,202
Total capital assets, being depreciated	137,769	1,542	(138)	139,173
Less accumulated depreciation for:				
Buildings and improvements	(26,740)	(3,709)	-	(30,449)
Machinery, equipment, and furnishings	(916)	(273)	-	(1,189)
Infrastructure	(26,137)	(923)	-	(27,060)
Vehicles	(5,407)	(595)	138	(5,864)
Total accumulated depreciation	(59,200)	(5,500)	138	(64,562)
Total capital assets, being depreciated, net	78,569	(3,958)	-	74,611
Capital assets, not being depreciated:				
Land	7,629	-	-	7,629
Construction in progress	1,219	6,264	-	7,483
Total capital assets, not being depreciated	8,848	6,264	-	15,112
Governmental activities capital assets, net	<u>\$ 87,417</u>	<u>\$ 2,306</u>	<u>\$ -</u>	<u>\$ 89,723</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery, equipment, and furnishings	\$ 1,598	\$ 50	\$ -	\$ 1,648
Infrastructure	10,055	239	-	10,294
Vehicles	764	278	(138)	904
Total capital assets, being depreciated	12,417	567	(138)	12,846
Less accumulated depreciation for:				
Machinery, equipment, and furnishings	(906)	(107)	-	(1,013)
Infrastructure	(8,618)	(87)	-	(8,705)
Vehicles	(151)	(90)	138	(103)
Total accumulated depreciation	(9,675)	(284)	138	(9,821)
Total capital assets, being depreciated, net	2,742	283	-	3,025
Capital assets, not being depreciated:				
Construction in progress	-	575	-	575
Total capital assets, not being depreciated	-	575	-	575
Business-type activities capital assets, net	<u>\$ 2,742</u>	<u>\$ 858</u>	<u>\$ -</u>	<u>\$ 3,600</u>

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

Governmental Activities:	
General government	\$ 349
Public safety	493
Education	2,091
Public works	1,634
Culture and recreation	104
Health and human services	829
Total depreciation expense - governmental activities	<u>\$ 5,500</u>
Business-Type Activities:	
Water	\$ 163
Sewer	121
Total depreciation expense - business-type activities	<u>\$ 284</u>

9. **Warrants Payable**

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law.

10. **Accrued Liabilities**

This balance consists primarily of salaries earned but unpaid at June 30, 2009 and other accrued liabilities.

11. **Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund *deferred revenues* account is equal to the total of all June 30, 2009 receivable balances. The Town's statutory "allowance for abatements and exemptions" (overlay) account, with a balance of \$ 1,473,576 has been reclassified to deferred revenue for reporting purposes.

12. **Tax Refunds Payable**

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Notes Payable

The Town had the following notes outstanding at June 30, 2009:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/09
Library Construction	3.25%	11/05/08	07/22/09	\$ 350,000
Total				\$ <u>350,000</u>

The following summarizes activity in notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ -	\$ 350,000	\$ -	\$ 350,000
Bond anticipation	-	900,000	(900,000)	-
Bond anticipation	1,576,000	-	(1,576,000)	-
Bond anticipation	443,000	-	(443,000)	-
Total	\$ <u>2,019,000</u>	\$ <u>1,250,000</u>	\$ <u>(2,919,000)</u>	\$ <u>350,000</u>

14. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of 6/30/09
Municipal purpose FY 98	8/17	5.03%	\$ 3,708,000
Municipal purpose FY 99	8/18	4.03%	6,898,050
General obligation bonds	11/17	4.79%	2,573,950
General obligation bonds	6/24	3.33%	2,700,000
General obligation bonds	6/20	3.36%	1,620,000
General obligation bonds	11/25	3.98%	12,545,000
General obligation bonds	11/20	4.23%	2,480,000
General obligation bonds	7/18	4.00%	15,650,000
Total Governmental Activities:			\$ <u>48,175,000</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/09</u>
Sewer bond (MWRA)	5/11	0.00%	\$ 189,011
Sewer bond (MWRA)	5/13	0.00%	<u>235,312</u>
Total Business-Type Activities:			<u>\$ 424,323</u>

B. Future Debt Service

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

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,315,000	\$ 934,831	\$ 6,249,831
2011	5,184,000	953,643	6,137,643
2012	4,983,000	835,913	5,818,913
2013	4,823,000	745,986	5,568,986
2014	3,379,000	657,777	4,036,777
2015-2019	13,941,000	2,064,724	16,005,724
2020-2024	7,300,000	711,363	8,011,363
2025-2029	<u>3,250,000</u>	<u>18,750</u>	<u>3,268,750</u>
Total	<u>\$ 48,175,000</u>	<u>\$ 6,922,987</u>	<u>\$ 55,097,987</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 153,333	\$ -	\$ 153,333
2011	153,333	-	153,333
2012	58,828	-	58,828
2013	<u>58,829</u>	<u>-</u>	<u>58,829</u>
Total	<u>\$ 424,323</u>	<u>\$ -</u>	<u>\$ 424,323</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance 6/30/09</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion 6/30/09</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 35,620	\$ 16,070	\$ (3,515)	\$ 48,175	\$ (5,315)	\$ 42,860
Compensated absences	2,399	121	(67)	2,453	(123)	2,330
OPEB liability	-	3,839	-	3,839	-	3,839
Totals	<u>\$ 38,019</u>	<u>\$ 20,030</u>	<u>\$ (3,582)</u>	<u>\$ 54,467</u>	<u>\$ (5,438)</u>	<u>\$ 49,029</u>

	Total Balance <u>7/1/08</u>	Additions	Reductions	Total Balance <u>6/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/09</u>
<u>Business-type Activities</u>						
Bonds payable	\$ 578	\$ -	\$ (153)	\$ 425	\$ (153)	\$ 272
OPEB liability	-	81	-	81	-	81
Totals	<u>\$ 578</u>	<u>\$ 81</u>	<u>\$ (153)</u>	<u>\$ 506</u>	<u>\$ (153)</u>	<u>\$ 353</u>

D. Advance and Current Refundings

Current Year

On May 27, 2009, the Town issued general obligation bonds in the amount of \$ 12,500,000 with a variable interest rate of 2.4% to advance refund \$ 12,080,000 of term bonds with an interest rate of 4.03% to 5.03%. The term bonds mature on August 15, 2017. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the Town's financial statements.

As a result of the advance refunding, the Town reduced its total debt service cash flow requirements by \$ 624,298.

Defeased debt still outstanding at June 30, 2009 is \$ 12,080,000.

15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2009:

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

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

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

17. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

The accompanying financial statements include an estimate for future potential tax refunds, which is not recognized under UMAS.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 5,148,984
Tax refund estimate	<u>1,291,444</u>
Statutory (UMAS) Balance	<u>\$ 6,440,428</u>

18. Commitments and Contingencies

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

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

19. Contributory Retirement System

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

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31, 2008:

Retirees and beneficiaries receiving benefits	407
Terminated plan members entitled to but not yet receiving benefits	164
Active plan members	<u>515</u>
Total	<u>1,086</u>
Number of participating employers	2

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

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

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

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$ 4,586,000	100%
2001	\$ 4,244,346	100%
2002	\$ 4,586,000	100%
2003	\$ 5,296,038	100%
2004	\$ 5,422,000	100%
2005	\$ 5,551,000	100%
2006	\$ 6,602,724	100%
2007	\$ 6,770,135	100%
2008	\$ 7,276,020	100%
2009	\$ 7,422,874	100%

B. Summary of Significant Accounting Policies

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

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Watertown Contributory Retirement System's most recent valuation (in thousands).

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/09	\$ 78,515	\$ 144,634	\$ 66,119	54.3%	\$ 25,266	261.7%

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

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 66.1 million was calculated. The actuarial assumptions included (a) 8% investment rate of return and (b) a projected salary increase of 4.5% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2008, the unfunded actuarially accrued liability is being amortized over 9 years using an open group method which assumes a 5% per year increase in payroll.

E. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

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

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

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

In fiscal year 2009, the Commonwealth of Massachusetts contributed \$ 7,752,351 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Post-Employment Health Care and Life Insurance Benefits

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

A. Plan Description

In addition to providing the pension benefits described, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2009, the actuarial valuation date, approximately 767 retirees and 764 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 20% for HMO and PPO Plans, 40% for indemnity plans and 10% for Teachers retired before July 1, 2009, respectively, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The Town's fiscal 2009 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is

projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2009.

Annual Required Contribution (ARC)	\$ 7,352,363
Interest on net OPEB obligation	-
Adjustment to ARC	<u>-</u>
Annual OPEB cost	7,352,363
Contributions made	<u>(3,432,000)</u>
Increase in net OPEB obligation	3,920,363
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 3,920,363</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 7,352,363	47%	\$ 3,920,363

The Town's net OPEB obligation as of June 30, 2009 is recorded as a noncurrent liability in the government-wide Statement of Net Assets.

E. Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	\$ 118,381,044
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 118,381,044</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 42,074,967</u>
UAAL as a percentage of covered payroll	<u>281%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 3.5% investment rate of return and an initial annual healthcare cost trend rate of 9% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

21. Risk Management

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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

22. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2009, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/08 (as previously reported)	Reclassification	Fund Equity 6/30/08 (as restated)
General Fund	\$ 13,018,415	\$ -	\$ 13,018,415
Police Station Construction Fund	-	(392,910)	(392,910)
Nonmajor Funds	<u>11,526,298</u>	<u>392,910</u>	<u>11,919,208</u>
Total	<u>\$ 24,544,713</u>	<u>\$ -</u>	<u>\$ 24,544,713</u>

TOWN OF WATERTOWN, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009
(Unaudited)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/09	\$ 78,514,694	\$ 144,633,508	\$ 66,118,814	54.3%	\$ 25,266,728	261.7%
01/01/08	\$ 97,038,107	\$ 140,549,411	\$ 43,511,304	69.0%	\$ 24,654,987	176.5%
01/01/06	\$ 77,395,170	\$ 130,484,841	\$ 53,089,671	59.3%	\$ 22,327,190	237.8%
01/01/04	\$ 72,563,856	\$ 120,699,469	\$ 48,135,613	60.1%	\$ 21,673,650	222.1%
01/01/02	\$ 70,633,407	\$ 111,494,385	\$ 40,860,978	63.4%	\$ 19,735,159	207.0%
01/01/01	\$ 66,804,435	\$ 100,876,281	\$ 34,071,846	66.2%	\$ 19,379,204	175.8%
01/01/00	\$ 67,485,797	\$ 93,900,795	\$ 26,414,998	71.9%	\$ 18,231,939	144.9%
01/01/99	\$ 56,172,432	\$ 90,052,933	\$ 33,880,501	62.4%	\$ 15,732,197	215.4%
01/01/98	\$ 54,266,762	\$ 76,162,713	\$ 21,895,951	71.3%	\$ 15,673,535	139.7%

Other Post-Employment Benefits

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]
06/30/09	\$ -	\$ 118,381,044	\$ 118,381,044	0.0%	\$ 42,074,967	281.4%

See Independent Auditors' Report.

TOWN OF WATERTOWN, MASSACHUSETTS
SCHEDULE OF REVENUES AND EXPENDITURES,
AND OTHER USES - BUDGET AND ACTUAL
WATER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	Original <u>Budget</u>	Revised <u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:				
Current service charges	\$ 5,195,326	\$ 5,195,326	\$ 5,131,903	\$ (63,423)
Interest income	<u>-</u>	<u>-</u>	<u>15,780</u>	<u>15,780</u>
Total Revenues	5,195,326	5,195,326	5,147,683	(47,643)
Expenditures:				
Personnel services	692,013	715,335	676,697	38,638
Supplies and materials	273,038	273,038	248,935	24,103
Charges and services	2,717,266	2,717,266	2,683,187	34,079
Capital outlay	242,000	218,678	157,000	61,678
Other	118,050	118,050	-	118,050
Transfers out	<u>1,152,959</u>	<u>1,152,959</u>	<u>1,271,009</u>	<u>(118,050)</u>
Total Expenditures and Other Uses	<u>5,195,326</u>	<u>5,195,326</u>	<u>5,036,828</u>	<u>158,498</u>
Excess of Revenues over Expenditures and Other Uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>110,855</u>	\$ <u>110,855</u>

See Independent Auditors' report.

TOWN OF WATERTOWN, MASSACHUSETTS
 SCHEDULE OF REVENUES AND EXPENDITURES,
 AND OTHER USES - BUDGET AND ACTUAL
 SEWER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Current service charges	\$ 7,821,037	7,821,037	\$ 7,899,136	\$ 78,099
Interest income	<u>100,000</u>	<u>100,000</u>	<u>34,760</u>	<u>(65,240)</u>
Total Revenues	<u>7,921,037</u>	<u>7,921,037</u>	<u>7,933,896</u>	<u>12,859</u>
Expenditures:				
Personnel services	324,596	335,474	320,922	14,552
Supplies and materials	364,784	364,784	348,260	16,524
Charges and services	4,839,847	4,839,847	4,748,683	91,164
Capital outlay	962,900	952,022	917,445	34,577
Other	271,383	271,383	153,333	118,050
Transfers out	<u>1,157,527</u>	<u>1,157,527</u>	<u>1,275,577</u>	<u>(118,050)</u>
Total Expenditures and Other Uses	<u>7,921,037</u>	<u>7,921,037</u>	<u>7,764,220</u>	<u>156,817</u>
Excess of Revenues over Expenditures and Other Uses	<u>\$ -</u>	<u>-</u>	<u>\$ 169,676</u>	<u>\$ 169,676</u>

See Independent Auditors' report.