

TOWN OF PHILLIPSTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2008

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2008

TOWN OF PHILLIPSTON, MASSACHUSETTS

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Selectmen
Town of Phillipston
Phillipston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, as of and for the year ended June 30, 2008, which collectively comprise the Town of Phillipston, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Phillipston, Massachusetts. Our responsibility is to express an opinion on these basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 7 and the required supplementary information on pages 27-28 as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2008, on our consideration of the Town of Phillipston, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



Roselli, Clark and Associates
Certified Public Accountants

October 31, 2008

Management's Discussion and Analysis

As the management of the Town of Phillipston, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information found on pages 8 - 28.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by approximately \$3.7 million (*total net assets*). Of this amount, approximately \$1.0 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by approximately \$0.3 million. This exceeded the expected results for an increase of \$0.1 million due primarily to an increase in real estate taxes as a result of an override of proposition 2 ½.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$0.8 million, an increase of approximately \$0.1 million over the previous year. Approximately \$0.6 million of the ending fund balance is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.
- The accounting treatment for certain items vary greatly between the Statement of Net Assets and the Governmental Fund Balance Sheet thus the significant differences in equity and fund balance amounts between the two statements noted above. A reconciliation has been provided on page 12 of the accompanying basic financial statements to assist the reader to understand these differences.
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$0.3 million, or approximately 11.3% percent of total general fund expenditures.
- The Town's total long-term debt was decreased by approximately \$0.1 million due to scheduled pay downs of debt. The Town carried one short-term note during the year in the amount of \$0.7 million. This note was issued for purposes of funding construction of a new highway garage.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (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 of the Town include general government, public safety, highways and streets, sanitation, education (through assessments paid to the two school districts the Town belongs to), economic development, debt service, fringe benefits and culture and recreation. The Town does not administer any business-type activities.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be included in governmental 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. Reconciliations are provided on pages 12-13 to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and stabilization/capital investment fund. Data from the other three governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget on page 25.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 -24 of this report.

Government-wide Financial Analysis (See Exhibit I – page 5).

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In this case Town, assets exceeded liabilities by approximately \$3.7 million at the close of the most recent fiscal year.

By far the largest portion (approximately 68.7%) of the Town's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Town began including the infrastructure fixed assets within its financial statements during fiscal year 2008.

An additional portion of the Town's net assets (approximately 3.7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 27.6%), may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets increased by approximately \$0.3 million. This exceeded the expected results for an increase of \$0.1 million due primarily to an increase in real estate taxes as a result of an override of proposition 2 ½.

Governmental Activities (See Exhibit II – page 6).

During the year ended June 30, 2008, the Town relied on approximately 71.1% of its revenues to come from property taxes, thus comprising the major source of revenue. Other major revenue sources consist of revenue from intergovernmental revenues, some in the form of operating and capital grants. Total intergovernmental revenues represent approximately 17.5% of the total revenues.

The Town's largest expense was education, representing approximately 51.3% of all expenses.

Financial Analysis of the Government's Funds. As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance of approximately \$0.8 million, an increase of approximately \$0.1 million over the previous year. Approximately \$0.6 million of the ending fund balance is *available for spending* at the government's discretion either as *unreserved fund balance* or *stabilization*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was approximately \$0.3 million and total fund balance of the general fund was approximately \$0.4 million. 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 approximately 11.3% of total general fund expenditures and total fund balance represents approximately 12.6% of total general fund expenditures.

The stabilization/capital investment fund has a total fund balance of approximately \$0.3 million. These are unencumbered accumulated financial resources that are subject to appropriation as directed by the Town's legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature.

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget were insignificant (less than 1.0% increase in appropriation).

**Government-Wide Financial Analysis
Exhibit I**

Net Assets

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 1,968,083	\$ 1,664,021
Capital assets, net	<u>2,763,273</u>	<u>2,640,306</u>
Total assets	4,731,356	4,304,327
Liabilities		
Long term liabilities	157,982	191,569
Other liabilities	<u>882,836</u>	<u>762,856</u>
Total liabilities	1,040,818	954,425
Net Assets		
Invested in capital assets, net of related debt	2,534,921	2,363,576
Restricted	134,764	176,541
Unrestricted	<u>1,020,853</u>	<u>809,785</u>
Net Assets	<u>\$ 3,690,538</u>	<u>\$ 3,349,902</u>

Government-Wide Financial Analysis
Exhibit II

Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues:		
Charges for services	\$ 112,547	\$ 135,496
Operating grants and contributions	100,620	98,316
Capital grants and contributions	272,150	-
General revenues:		
Property taxes	2,434,817	1,815,046
Intergovernmental	225,476	200,674
Other	277,339	285,272
Total revenues	<u>3,422,949</u>	<u>2,534,804</u>
Expenses		
General government	381,774	338,492
Public safety	476,537	453,610
Education	1,582,118	1,106,340
Public works	360,464	446,670
Health and human services	85,998	92,559
Culture and recreation	41,367	29,801
Pension, insurance and other fringe benefits	148,959	142,170
State and county	4,899	3,988
Debt service	197	5,286
Total expenses	<u>3,082,313</u>	<u>2,618,916</u>
Increase (deficiency) in net assets	340,636	(84,112)
Beginning net assets	<u>3,349,902</u>	<u>3,434,014</u>
Ending net assets	<u>\$ 3,690,538</u>	<u>\$ 3,349,902</u>

Capital Asset and Debt Administration

Capital Assets. The capital assets of the Town are those assets that are used in the performance of the Town's functions. Depreciation on capital assets is recognized in the government-wide financial statements. Depreciation for the years ended June 30, 2008 and 2007 was approximately \$0.2 and \$0.1 million respectively.

The Town began including the infrastructure fixed assets within its financial statements with fiscal year 2008.

Additional information on the Town capital assets can be found in note III. D on page 20 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$0.1 million and obligations under capital leases of approximately \$0.1 million. The entire amount comprises debt backed by the full faith and credit of the government.

The Town's total long-term debt was decreased by approximately \$0.1 million due to scheduled pay downs of debt. The Town carried one short-term note during the year in the amount of \$0.7 million. This note was issued for purposes of funding construction of a new highway garage.

The Town has not received a bond rating in several years.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0% percent of its total assessed valuation. The current debt limitation for the Town is approximately \$10.5 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in note III.E and F on pages 21 - 22 of this report.

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate values are lower in average than state-wide amounts, but comparable regionally. Consistent with both state and national indices, the Town's housing market is in a downward trend. Housing prices are approximately 20% lower than their 2005 peaks.
- The Town does not rely on a central business district for local revenues.
- Residential property taxpayers represent vast majority (approximately 95%) of the budgeted property tax revenues; the other 5% consists of commercial and industrial taxpayers.
- Inflationary trends in the region are consistent with state and national indices.
- The Town is required to carry forward fiscal year 2008 deficits for snow and ice and overlay in aggregate approximating \$0.1 million. These must be raised as part of the fiscal 2009 tax rate.

All of these factors were considered in preparing the Town's budget for the 2009 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the Selectmen, Town Hall, 50 The Common, Phillipston, Massachusetts, 01331.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents	\$ 1,548,264
Receivables, net of allowance for uncollectibles:	
Real estate and personal property taxes	159,597
Motor vehicle excise	54,451
Septic loan program	41,515
Other assets	289
Total Current Assets	1,804,116
NONCURRENT:	
Restricted:	
Cash	86,985
Receivables:	
Real Estate and personal property taxes	76,982
Land	1,128,200
Construction in process	81,387
Depreciable capital assets, net of accumulated depreciation	1,553,686
TOTAL ASSETS	4,731,356
LIABILITIES	
CURRENT:	
Warrants and accounts payable	109,789
Other liabilities	2,677
Short-term notes payable	700,000
Current portion of debt	7,697
Capital lease obligations	62,673
Total Current Liabilities	882,836
NONCURRENT:	
Long-term portion of debt	92,204
Capital lease obligations	65,778
TOTAL LIABILITIES	1,040,818
NET ASSETS	
Invested in capital assets, net of related debt	2,534,921
Restricted for:	
Capital projects	(89,877)
Permanent funds	86,760
Special revenue	137,881
Unrestricted	1,020,853
NET ASSETS	\$ 3,690,538

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
General government	\$ 381,774	\$ 28,544	\$ 37,926	\$ -	\$ (315,304)
Public safety	476,537	40,854	16,353	-	(419,330)
Education	1,582,118	-	-	-	(1,582,118)
Public works	360,464	6,469	-	272,150	(81,845)
Health and human services	85,998	36,680	15,201	-	(34,117)
Culture and recreation	41,367	-	4,400	-	(36,967)
Pension and fringe benefits	148,959	-	26,740	-	(122,219)
State and county charges	4,899	-	-	-	(4,899)
Debt service	197	-	-	-	(197)
Total Governmental Activities	3,082,313	112,547	100,620	272,150	(2,596,996)
<u>General Revenues:</u>					
					2,434,817
					225,476
					219,293
					21,615
					26,431
					10,000
					<u>2,937,632</u>
					Change in Net Assets
					340,636
<u>Net Assets:</u>					
					Beginning of year
					<u>3,349,902</u>
					End of year
					<u>\$ 3,690,538</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General	Stabilization and Capital Investment	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 386,576	\$ 326,802	\$ 834,886	\$ 1,548,264
Receivables, net of allowance for uncollectibles				
Real estate and personal property taxes	236,579	-	-	236,579
Other	54,451	-	41,515	95,966
Other assets	7,710	-	-	7,710
Cash - restricted	-	-	86,985	86,985
Total Assets	\$ 685,316	\$ 326,802	\$ 963,386	\$ 1,975,504
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants and accounts payable	\$ 30,103	\$ -	\$ 79,686	\$ 109,789
Other liabilities	2,677	-	7,421	10,098
Short-term notes payable	-	-	700,000	700,000
Deferred revenues	277,374	-	41,515	318,889
Total Liabilities	310,154	-	828,622	1,138,776
FUND BALANCES:				
Reserved for:				
Stabilization and Capital Investment	-	326,802	-	326,802
Community preservation	-	-	25,512	25,512
Encumbrances	36,208	-	-	36,208
Undesignated, reported in:				
General fund	338,954	-	-	338,954
Special revenue funds	-	-	112,369	112,369
Capital projects	-	-	(89,877)	(89,877)
Permanent funds	-	-	86,760	86,760
Total Fund Balances	375,162	326,802	134,764	836,728
Total Liabilities and Fund Balances	\$ 685,316	\$ 326,802	\$ 963,386	\$ 1,975,504

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
JUNE 30, 2008**

	General	Stabilization and Capital Investment	Non-major Governmental Funds	Total Governmental Funds
REVENUES				
Real estate and personal property taxes, net	\$ 2,382,951	\$ -	\$ 36,446	\$ 2,419,397
Intergovernmental	462,335	-	134,911	597,246
Motor vehicle and other excises	206,315	-	-	206,315
Departmental and other revenue	41,201	-	37,829	79,030
License and permits	11,599	-	-	11,599
Penalties and interest on taxes	21,615	-	-	21,615
Fines and forfeitures	22,685	-	-	22,685
Investment income	12,213	10,530	3,688	26,431
Contributions and donations	-	-	1,000	1,000
Total Revenues	<u>3,160,914</u>	<u>10,530</u>	<u>213,874</u>	<u>3,385,318</u>
OTHER FINANCING SOURCES				
Sale of capital assets	10,000	-	-	10,000
Transfers in	-	121,101	25,000	146,101
Total Other Financing Sources	<u>10,000</u>	<u>121,101</u>	<u>25,000</u>	<u>156,101</u>
Total Revenues and Other Financing Sources	<u>3,170,914</u>	<u>131,631</u>	<u>238,874</u>	<u>3,541,419</u>
EXPENDITURES				
General government	348,749	-	27,170	375,919
Public safety	426,394	-	27,792	454,186
Education	1,558,741	-	-	1,558,741
Public works	322,964	-	199,659	522,623
Health and human services	70,181	-	15,622	85,803
Culture and recreation	35,907	-	-	35,907
Fringe and Pension Benefits	148,959	-	-	148,959
State and county tax assessments	4,899	-	-	4,899
Debt service - principal	66,424	-	-	66,424
Debt service - interest	5,803	-	-	5,803
Total Expenditures	<u>2,989,021</u>	<u>-</u>	<u>270,243</u>	<u>3,259,264</u>
OTHER FINANCING USES				
Transfers out	135,693	-	10,408	146,101
Total Expenditures and Other Financing Uses	<u>3,124,714</u>	<u>-</u>	<u>280,651</u>	<u>3,405,365</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	46,200	131,631	(41,777)	136,054
FUND BALANCES, JULY 1, 2007	<u>328,962</u>	<u>195,171</u>	<u>176,541</u>	<u>700,674</u>
FUND BALANCES, JUNE 30, 2008	<u>\$ 375,162</u>	<u>\$ 326,802</u>	<u>\$ 134,764</u>	<u>\$ 836,728</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Governmental Fund Balances	\$ 836,728
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,763,273
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	318,889
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the government funds:	
Bonds	(99,901)
Capital lease obligations	<u>(128,451)</u>
Net Assets of Governmental Activities	<u><u>\$ 3,690,538</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

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

JUNE 30, 2008

Net Change in Fund Balances - Total Governmental Fund Balances	\$ 136,054
 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. There were \$199,289 in capital outlays and depreciation expense totaled \$157,709. The net amount is reflected here as a reconciling item.	 122,967
 The issuance of long-term debt 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 has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Debt repayments were \$66,424 and there were no proceeds.	 66,424
 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 differ between the two statements. The amount presented represents the difference in deferred revenue.	 27,631
 In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. This represents the difference between the accruals between this year and the prior year.	 5,606
 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: Obligations under capital leases	 <u>(18,045)</u>
 Change in Net Assets of Governmental Activities	 <u><u>\$ 340,637</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

I. Summary of Significant Accounting Policies

The basic financial statements of the Town, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the Town:

A. Reporting Entity - The Town of Phillipston is a political subdivision of the Commonwealth of Massachusetts, located in Worcester County. The Town was incorporated in 1814 and is governed by Town Meeting. The operations of the Town are managed by an elected three-member Board of Selectmen. The Town provides general governmental services to its residents, including public safety, education, public works and social services.

B. Individual Component Unit Disclosures - Component units, while separate entities, are in substance part of the governmental operations of the Town due to the significance of its operations and financial relationship with the Town. Pursuant to this criteria, the following entities have been excluded from the financial statements:

- Narragansett Regional School District
- Worcester Regional Retirement System
- Montachusett Regional Vocational Technical School

C. Government-Wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary 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 on this statement. 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 or 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*. Separate financial statements are provided for Governmental Funds. Major individual Governmental Funds are reported as separate columns in the 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However expenditures related to debt service, claims and judgments are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major Governmental Funds:

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.

Stabilization and Capital Investment Fund – is used to account for certain unencumbered accumulated financial resources that are subject to appropriation as directed by the Town’s Legislative branch. These funds are typically used for nonrecurring expenditures, usually capital in nature or unexpected items that may arise during the year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The Town has elected not to follow private-sector guidance. 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. When both restricted and unrestricted resources are available for use, it is the Town’s policy to use restricted resources first, then unrestricted resources, as they are needed.

E. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest in obligations of the United States Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer’s Investment Pool. Investments for the Town, and its component units are reported at fair value. The State Treasurer’s Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Receivables – All property tax and trade receivables are shown net of an allowance for doubtful collections comprised of those outstanding amounts, which are deemed potentially uncollectible. Real estate and personal property taxes are assessed on January 1 every year. Bills are sent four times annually and are due on August 1, November 1, February 1 and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes to the statutory rate per annum. The Town is allowed to take delinquent tax accounts into tax title fourteen days subsequent to the mailing of demand of delinquent taxes.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

Capital Assets – Capital assets which include property, plant, and equipment are reported in the applicable governmental-type activity column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Structures and improvements	25 - 40 years
Infrastructure	20 - 40 years
Equipment, furniture, fixtures and vehicles	10 - 20 years

Compensated Absences – It is the Town’s policy to permit full time employees to utilize vacation and sick-pay benefits. Employees must either use or sell back unused time within the fiscal year accordingly no amounts have been accrued as of the fiscal year end.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds. Bond anticipation notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts as other financing uses. Issuance costs are exclusively reported as debt service expenditures regardless of whether they are withheld from the actual proceeds.

Risk Financing – The Town is exposed to various risks of loss related to torts, theft, damage and destruction of assets; errors and omissions; natural disasters and various employee benefits including health, workers' compensation and unemployment compensation. The Town carries commercial insurance. There were no significant reductions in insurance coverage from the previous year, and there have been no material settlements in excess of coverage in any of the past three fiscal years.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as a significant aspect of budgetary control in the Governmental Fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities.

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.

II. Stewardship, Compliance and Accountability

- A. Budgetary Information** – An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town’s annual meeting. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.
- B. Excess of Expenditures Over Appropriations** – During the fiscal year ended the Town incurred a deficit for snow and ice removal in the amount of \$103,650. This legal deficit will be raised through future taxation.
- C. Deficit Fund Equity** – The Town incurred a deficit in its Chapter 90 Highway Fund in the amount of \$116,782. It is anticipated that this deficit will be funded through future receipts of grants. A legal Capital Projects Fund deficit for the highway garage is expected to be funded through future debt issuance.

III. Detailed Notes to All Funds

A. Deposits and Investments

Deposits – Cash and equivalents include cash on hand and certificates of deposit with maturities of three months or less.

GAAP requires disclosure for investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty’s trust department or agent but not in the government’s name. The Town does not maintain investments subject to these classifications.

Concentration of Credit Risk –The Town does not maintain balances in any single investment that would represent more than 5% of the Town’s total investments.

Interest Rate Risk – The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. As of June 30, 2008, the carrying amount of the Town's deposits was \$780,939, and the bank balance was \$857,256. Of the Town's bank balance, \$256,451 was covered by either federal depository insurance or by the depositors’ insurance fund. The remainder was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. Statutes require the Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
The following represents the Town's investments as of June 30, 2008:	\$ -	\$ -	\$ -	\$ -	\$ -
Total Town Investments With Maturities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Money Market	480,242				
State Treasurer's Investment Pool	<u>374,068</u>				
Total Town Investments Without Maturities	<u>854,310</u>				

Following is a reconciliation of investments and cash and equivalents as summarized above to the balance as recorded in the combined balance sheet:

	Investments	Cash and Equivalents
As presented above	\$ 854,310	\$ 780,939
Reclass: Short-term investments reported in the combined balance sheet as cash and short-term investments; As follows:		
Money Market investments	(480,242)	480,242
State Treasurer's Investment Pool	<u>(374,068)</u>	<u>374,068</u>
Totals	<u>\$ -</u>	<u>\$ 1,635,249</u>

III. Detailed Notes to All Funds (continued)

B. Receivables

Presentation Breakdown – Receivables as of year-end for the government’s individual major, in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Non-major</u>	<u>Total</u>
Property taxes	\$ 159,497		\$ 159,497
Tax liens	76,982		76,982
Excise	54,451		54,451
Loans		\$ 41,515	41,515
Gross receivables	290,930	41,515	332,445
Allowance	(-)	(-)	(-)
Total receivables	<u>\$ 290,930</u>	<u>\$ 41,515</u>	<u>\$ 332,445</u>

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. Governmental Funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in Governmental Funds amounted to \$318,889. The Town does not have any unearned revenue as of the end of the fiscal year.

C. Interfund Receivables, Payables and Transfers – Net interfund transfers during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 102,688	\$ 238,381
Stabilization and capital investment	238,381	117,280
Non-major	88,519	73,927
Totals	<u>\$ 429,588</u>	<u>\$ 429,588</u>

The majority of the transfers were made for operating purposes.

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,128,200	\$ -	\$ -	\$ 1,128,200
Construction in process	-	81,387	-	81,387
Total capital assets not being depreciated	1,128,200	81,387	-	1,209,587
Capital assets being depreciated:				
Buildings and improvements	3,356,710			3,356,710
Infrastructure *	3,489,000	58,908	-	3,547,908
Machinery and equipment	468,181	140,381	(37,000)	571,562
Vehicles	1,233,527	-	-	1,233,527
Total capital assets being depreciated	8,547,418	199,289	(37,000)	8,709,707
Less accumulated depreciation for:				
Buildings and improvements	(2,243,076)	(51,548)	-	(2,294,624)
Infrastructure*	(3,489,000)	(1,473)	-	(3,490,473)
Machinery and equipment	(378,898)	(42,905)	37,000	(384,803)
Vehicles	(924,338)	(61,783)	-	(986,121)
Total accumulated depreciation	(7,035,312)	(157,709)	37,000	(7,156,021)
Total capital assets being depreciated, net	1,512,106	41,580	-	1,553,686
Governmental activities capital assets, net	<u>\$ 2,640,306</u>	<u>\$ 122,967</u>	<u>\$ -</u>	<u>\$ 2,763,273</u>

* Beginning balances were restated to reflect the impact of the implementation of infrastructure assets.

Depreciation expense was charged to functions/programs as follows:

General government	\$ 5,855
Public safety	57,620
Education	23,377
Public works	65,201
Health and human services	195
Culture and recreation	5,461
	<u>\$ 157,709</u>

E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes (RANS or TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

Temporary notes outstanding at June 30, 2008, recorded in the Governmental Funds are payable as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
BAN – DPW	2.34%	12/01/08	\$ 700,000

During the year ended June 30, 2008, the following reflects the activity in the short-term liability accounts:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
Revenue anticipation notes	\$ 500,000	\$ -	\$(500,000)	\$ -
Bond anticipation notes	-	700,000	-	700,000
Totals	<u>\$ 500,000</u>	<u>\$ 700,000</u>	<u>\$(500,000)</u>	<u>\$ 700,000</u>

F. Long-Term Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for governmental activities.

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The following is a computation of the legal debt margin as of June 30, 2008:

Equalized Valuation –		
Real Estate and Personal Property		\$ 211,244,119
Debt Limit – 5% of Equalized Valuation		10,562,206
Total Debt (including authorized and unissued)	\$ 1,142,600	
Less: Debt exempt from Limit	(1,142,600)	-
Legal Debt Margin		<u>\$ 10,562,206</u>

The following is a summary of outstanding long-term debt obligations for the year ended June 30, 2008:

Description of Issue	Maturity Date	Interest Rate	Outstanding July 1, 2007	Additions	Retirements	Outstanding June 30, 2008
<i>Bonded Debt:</i>						
<i>Inside the debt limit</i>						
Elementary School	12/7/2007	4.13%	\$ 66,426	\$ -	\$ (66,426)	\$ -
MWPAT - Title V	8/1/2020	0.00%	99,900	-	-	99,900
Total inside the debt limit			166,326	-	(66,426)	99,900
<i>Outside the debt limit</i>						
Total outside the debt limit			-	-	-	-
Total bonded debt - governmental activities			\$ 166,326	\$ -	\$ (66,426)	\$ 99,900
<i>Obligations under capital leases</i>						
Fire truck lease	1/20/2010	4.15%	\$ 110,405	\$ -	\$ (35,269)	\$ 75,136
Backhoe loader	12/10/2010	5.75%	-	82,357	(29,042)	53,315
Total capital lease obligations			\$ 110,405	\$ 82,357	\$ (64,311)	\$ 128,451

Future Debt Payoff - Payments on general long-term debt obligation bonds due in future years consist of the following:

Year Ending June 30	Principal			Interest		
	Balance	Subsidy	Net Amount	Balance	Subsidy	Net Amount
2009	\$ 7,697	\$ -	\$ 7,697	\$ 5,187	\$ (5,187)	\$ -
2010	7,696	-	7,696	4,792	(4,792)	-
2011	7,696	-	7,696	4,388	(4,388)	-
2012	7,696	-	7,696	3,984	(3,984)	-
2013	7,696	-	7,696	3,590	(3,590)	-
2014 - 2018	38,480	-	38,480	11,478	(11,478)	-
2019 - 2021	22,939	-	22,939	1,713	(1,713)	-
Total	\$ 99,900	\$ -	\$ 99,900	\$ 35,132	\$ (35,132)	\$ -

Capital Lease Obligations (Governmental Activities) - Payments on capital lease obligations due in future years consist of the following:

Year Ending June 30	Present Value of Net Lease Payments	Interest	Total Minimum Lease Obligation
	2009	\$ 62,673	\$ 6,369
2010	65,778	3,264	69,042
Total	\$ 128,451	\$ 9,633	\$ 138,084

Authorized and unissued - The following represents authorized and unissued debt as of June 30, 2008:

Project	Amount
DPW garage	\$ 700,000
Stoddard property	325,000
Queen Lake weeds	17,700
Total	<u>\$ 1,042,700</u>

Overlapping Debt – The Town’s proportionate share of debt of other governmental units which provide services within the Town’s boundaries, and which is annually assessed to the Town, is approximated below in unaudited amounts:

<u>Related Entity</u>	<u>Principal</u>	<u>Percent Attributed</u>	<u>Annually Assessed</u>
Narragansett Regional School District	\$ 16,130,000	20.14	\$ 94,501
Montachusett Regional Vocational School District	11,760,000	0.70	91,431
			<u>\$ 185,932</u>

IV. Other Information

A. Retirement System -

Plan Description – The Town contributes to the Worcester Regional Contributory Retirement System (WRRS), a multiple employer plan established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The WRRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester Regional Retirement System, 2 Main Street, Room 3, Worcester, MA 01608.

Substantially all full-time and some part time employees of the Town, except teachers and certain administrative personnel employed by the School District, participate in the System. Benefits paid under the plan, referred to as "retirement allowance," include both an annuity portion, funded principally from amounts contributed by the participants, and a pension portion funded by the Town.

Teachers and certain administrative employees of the School District participate in a contributory retirement plan administered by the Massachusetts Teachers Retirement Board. Contributions to this plan totaled approximately \$26,740 and were made entirely by the Commonwealth of Massachusetts on behalf of the Town. The Town does not contribute directly to this plan.

The participants contribute a certain percentage of their compensation annually, determined by their date of employment as follows:

<u>Year Employed</u>	<u>Employee Contribution Rate</u>
Prior to 1975	5%
1975 - 1983	7%
1984 - June 1996	8%
July 1996 and later	9%
1979 and later	2% of salary in excess of \$30,000

The Town’s employer contribution is determined by the county's actuarial valuation. It consists of the amount required to pay the employer normal cost plus the amortization of the original unfunded actuarial liability.

Funding Policy – The Pension Reform Act of 1987 was enacted by the State Legislature in January 1988. The act amends Chapter 32 of the General Laws and requires amortization of the unfunded pension liability over a minimum forty-year period. The law also permits each retirement board to waive the \$30,000 pay cap for employees hired after 1978 and, accordingly, the Board of Directors of the Worcester County Contributory Retirement System voted to waive the pay cap effective January 1, 1990. Beginning July 1, 1994, the employer contribution is determined using the various funding schedules derived under Section 22D. These include at a minimum, amounts for the employer normal cost plus the amortization of the original unfunded actuarial liability.

In accordance with Massachusetts General Laws, employer contributions to the System have historically been determined on a pay-as-you-go basis. Generally accepted accounting principles require that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

The employer contribution to the System for the year ended June 30, 2008 was approximately 9.29% percent of the covered payroll. Contributions by the Town to the WRRS for the years ended June 30, 2008, 2007 and 2006 were \$32,597; \$20,742 and \$25,767; respectively. This equaled 100% of the required contribution each year.

B. Risk Financing –

The Town is exposed to various risks of loss related to torts, theft, damage and destruction of assets; errors and omissions; natural disasters and various employee benefits including health, workers' compensation and unemployment compensation.

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

C. Post Employment Benefits –

In addition to providing pension benefits, the Town provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. These benefits are provided through various health maintenance organizations. Benefits paid by the Town are on a pay-as-you-go basis. There is no actuarial valuation available as of June 30, 2008, which would permit an estimation of the unfunded past service cost liability, future costs of current participants in the system and annual amounts needed to fund such costs. If such an actuarial amount was available, management does not believe it would have a material affect on the basic financial statements.

D. Contingencies –

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2008, cannot be ascertained, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2008.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.

V. Implementation of New GASB Pronouncements

The following GASB pronouncements will be implemented in future years as their dates become effective:

Effective date: June 30, 2010.

- a. *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*

VI. Economic Dependence

During the year ended June 30, 2008, 17.5% of revenues from governmental activities were recognized from the Commonwealth of Massachusetts.

TOWN OF PHILLIPSTON, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 2,386,344	\$ 2,386,344	\$ 2,382,951	\$ -	\$ 2,382,951	\$ (3,393)
Intergovernmental	430,688	430,688	433,595	-	433,595	4,907
Motor vehicle and other excises	209,000	209,000	206,315	-	206,315	(2,685)
Departmental and other revenue	54,067	54,067	41,201	-	41,201	(12,866)
License and permits	8,500	8,500	11,599	-	11,599	3,099
Penalties and interest on taxes	17,000	17,000	21,615	-	21,615	4,615
Fines and forfeitures	24,000	24,000	22,685	-	22,685	(1,315)
Investment income	14,000	14,000	12,213	-	12,213	(1,787)
Total Revenues	3,143,599	3,143,599	3,134,174	-	3,134,174	(9,425)
EXPENDITURES						
General government	385,697	385,697	348,749	14,078	362,827	22,870
Public safety	437,962	437,962	426,394	4,247	430,641	7,321
Education	1,574,643	1,574,643	1,558,741	10,000	1,568,741	5,902
Public works	259,445	259,445	322,964	-	322,964	(63,519)
Health and human services	83,734	83,734	70,181	2,010	72,191	11,543
Culture and recreation	60,930	60,930	35,907	5,873	41,780	19,150
Fringe and pension benefits	143,097	143,097	122,219	-	122,219	20,878
State and county tax assessments	4,164	4,164	4,899	-	4,899	(735)
Debt service	79,425	79,425	72,227	-	72,227	7,198
Total Expenditures	3,029,097	3,029,097	2,962,281	36,208	2,998,489	30,608
OTHER FINANCING SOURCES (USES)						
Sale of capital asset	-	-	10,000	-	10,000	(10,000)
Proceeds from debt issuance	17,700	17,700	-	-	-	17,700
Transfers in	102,688	102,688	102,688	-	102,688	-
Transfers out	(238,381)	(238,381)	(238,381)	-	(238,381)	-
Total Other Financing Sources (Uses)	(117,993)	(117,993)	(125,693)	-	(125,693)	7,700
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE						
OF PRIOR YEAR BUDGETARY FUND BALANCE	(3,491)	(3,491)	46,200	\$ (36,208)	\$ 9,992	\$ (32,333)
BUDGETARY FUND BALANCES, JULY 1, 2007	328,962	328,962	328,962			
BUDGETARY FUND BALANCES, JUNE 30, 2008	\$ 325,471	\$ 325,471	\$ 375,162			

The notes to the financial statements are an integral part of this statement.

TOWN OF PHILLIPSTON, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008**

I. Budgetary Basis of Accounting

An annual budget is legally adopted for the General Fund. Financial orders are initiated by department heads, recommended by the Board of Selectmen and approved by the Town members at the Town's annual meeting in June. Expenditures may legally exceed appropriations at the department level. Department heads may transfer, without Town meeting approval, appropriation balances from one expenditure account to another within their department or budget. The Town meeting and the department heads however must approve any transfer of unencumbered appropriation balances between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse or reverts to unreserved fund balance.

At the close of each fiscal year, unencumbered appropriation balances lapse or revert to unreserved fund balance.

The Town's general fund is prepared on a basis other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide a meaningful comparison with the budget. Primary differences include the recognition grossing up of revenues and expenditures to reflect On Behalf Teacher's Retirement paid by the Commonwealth. A reconciliation is provided below.

Revenues on a GAAP basis	\$ 3,160,914
On Behalf Teacher's receipts	(26,740)
Revenues on a Budgetary basis	\$ 3,134,174
Expenditures on a GAAP basis	\$ 2,989,021
On Behalf Teacher's expenditures	(26,740)
Expenditures on a Budgetary basis	\$ 2,962,281

ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Selectmen
Town of Phillipston
Phillipston, Massachusetts

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, as of and for the year ended June 30, 2008, which collectively comprise the Town of Phillipston, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Phillipston, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Phillipston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Phillipston, Massachusetts' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Phillipston, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Phillipston, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the Town of Phillipston, Massachusetts' internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Phillipston, Massachusetts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Town of Phillipston
Phillipston, Massachusetts

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Phillipston, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Phillipston, Massachusetts' in a separate letter dated October 31, 2008.

This report is intended for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts

October 31, 2008