

TOWN OF STERLING, MASSACHUSETTS

BASIC FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION

YEAR ENDED JUNE 30, 2008

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Selectmen
Town of Sterling, 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 Sterling, Massachusetts as of and for the year ended June 30, 2008, (except for the financial statements of the Sterling Electric Light Department which are as of and for the year ended December 31, 2007) which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sterling's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Sterling Electric Light Department. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sterling Electric Light Department, is based on the report of the other auditors.

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 misstatements. 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sterling, Massachusetts at June 30, 2008, (except for the Sterling Electric Light Department which are as of December 31, 2007) and the respective changes in financial position, and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2009, on our consideration of the Town of Sterling, Massachusetts's internal control over financial reporting and 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 on 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements, but is 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.

Borgatti Harrison & Co.

Borgatti Harrison & Co.

Framingham, Massachusetts
April 9, 2009

TOWN OF STERLING, MASSACHUSETTS

Management's Discussion and Analysis

As management of the Town of Sterling (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Sterling for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements, which begin on page 14 of this report.

Financial Highlights:

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$49,522,671 (*net assets, Statement of Net Assets, page 14*). Of this amount, \$12,335,625 (*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 \$664,937 in fiscal year 2008. Net assets of governmental activities increased by \$1,443,608 and net assets of business-type activities decreased by \$778,671.
- The total cost of all Town's services for fiscal 2008 was \$27,257,863 (*Statement of Activities, page 15*), \$18,636,146 of which was for governmental services, and \$8,621,717 of which was for business-type activities.
- At June 30, 2008, the Town's governmental funds reported a combined ending fund balance of \$9,236,182 (*Balance sheet, page 16*). The combined governmental funds fund balance increased by \$461,449 (*Statement of Revenues, Expenditures and Changes in Fund Balances, page 18*) from the prior year's ending fund balance. A total of \$8,838,514, or 95.7% of the \$9,236,182 fund balance is considered unreserved at June 30, 2008.
- The Town's general fund reported a fund balance of \$1,643,454 (*Balance Sheet, page 16*) at the end of fiscal 2008. The unreserved fund balance for the general fund was \$1,260,732 or 6.4% of total general fund expenditures and transfers to other funds. There was a \$65,685 increase in total general fund balance for the year. A total of \$-0- of the unreserved fund balance was designated for funding the fiscal year 2009 budget.
- The Town's total bonded debt decreased by \$1,325,391 or 6.2% during the year. The key factors in this change were debt service payments of \$1,627,105, and borrowings for Rt. 12 water project of \$301,714.

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 consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of 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 the cash flows*. Thus, revenue and expenses reported in this statement for some items 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 and activities of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the Town include the broad functions of general government; public safety; education; public works; health & human services; and culture and recreation. The business-type activities of the Town include two enterprise activities: the water system; and the sanitary sewer system.

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 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, government fund financial statements focus on the *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*.

The Town maintains 10 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, the stabilization fund, and the capital projects fund, all of which are considered to be major funds. Data from the other 7 funds are combined into a single, aggregated presentation under the caption *non-major governmental funds*.

The basic governmental fund financial statements can be found on pages **16-20** of this report.

Proprietary funds: The Town maintains one type of proprietary fund, *Enterprise funds*, which are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses two enterprise funds to account for water, and electric light activities.

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

The electric light enterprise fund activity is presented for the period January 1, 2007 through December 31, 2007, as these activities are maintained on a calendar year basis.

The basic proprietary fund financial statements can be found on pages **21-23** of this report.

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

All other fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption private purpose trust funds.

The fiduciary fund financial statements can be found on pages **24-25** 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 **27-49** of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning all legally adopted budgets. The Town adopts an annual appropriation budget for the general, water, and sewer funds. Budgetary comparison schedules are presented to demonstrate compliance with the budget on page **20** of this report.

Government-wide Financial Analysis:

**Town of Sterling
Net Assets**

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Current assets	\$ 11,458,283	\$ 11,100,270	\$ 4,957,130	\$ 5,791,378	\$ 16,415,413	\$ 16,891,648
Non current assets(except capital assets)	11,852,447	12,929,942	1,048,941	1,097,369	12,901,388	14,027,311
Capital assets	30,094,209	29,223,629	12,473,986	12,362,035	42,568,195	41,585,664
Total assets	53,404,939	53,253,841	18,480,057	19,250,782	71,884,996	72,504,623
Current liabilities	2,147,719	2,198,119	1,374,878	2,267,624	3,522,597	\$ 4,465,743
Long term liabilities	15,827,579	17,069,689	3,012,149	2,111,457	18,839,728	19,181,146
Total liabilities	17,975,298	19,267,808	4,387,027	4,379,081	22,362,325	23,646,889
Net assets:						
Invested in capital, net of related debt	26,200,151	25,006,066	9,206,621	9,161,125	35,406,772	\$ 34,167,191
Restricted	505,274	445,932	1,275,000	2,450,000	1,780,274	2,895,932
Unrestricted	8,724,216	8,534,044	3,611,409	3,260,576	12,335,625	11,794,620
Total net assets	\$ 35,429,641	\$ 33,986,042	\$ 14,093,030	\$ 14,871,701	\$ 49,522,671	\$ 48,857,743

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The Town’s assets exceeded liabilities by 49,522,671 the close of the most recent fiscal year.

Included within the governmental activity non current assets, unrelated to capital assets, are \$11,852,447 future year school construction reimbursement grants.

Governmental activity long term liabilities include \$15,418,000 in general obligation bonds payable. Business-type activity long-term liabilities include \$2,974,766 in general obligation bonds.

The largest portion of the Town’s total net assets (71.5%) reflects its 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. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Town’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay debt must be provided from other sources, since capital assets themselves, cannot be used to liquidate these liabilities.

An additional portion of the Town’s net assets (3.6%) represents resources that are subject to restrictions placed on how they may be used by parties external to the Town. The remaining balance of unrestricted net assets, \$12,335,625 or 24.9%, of total net assets may be used to meet the government’s on-going obligations to citizens and creditors. It is important to note that although the total unrestricted net assets is \$12,335,625; the net assets of the Town’s business-type activities, \$3,611,409 may not be used to fund governmental activities.

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

The government's total net assets increased by \$664,937 during the current fiscal year, representing a 4.2% increase in the governmental activities and a 5.2% decrease in the business-type activities.

**Town of Sterling
Changes in Net Assets**

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for service	\$ 1,442,623	\$ 1,452,749	\$ 7,737,369	\$ 7,316,558	\$ 9,179,992	\$ 8,769,307
Operating grants and contributions	1,919,192	642,852	-	-	1,919,192	642,852
Capital grants and contributions	-	-	-	-	-	-
General Revenues:						
Property tax	13,681,185	12,972,498	-	-	13,681,185	12,972,498
Other taxes	1,586,517	1,473,496	-	-	1,586,517	1,473,496
Grants and contributions-not restricted	513,631	841,321	-	-	513,631	841,321
All other	856,049	605,348	186,234	213,797	1,042,283	819,145
Total revenues	19,999,197	17,988,264	7,923,603	7,530,355	27,922,800	25,518,619
Expenses						
General government	972,859	899,672	-	-	972,859	899,672
Public safety	2,471,797	2,399,856	-	-	2,471,797	2,399,856
Education	9,885,756	9,297,507	-	-	9,885,756	9,297,507
Public works	2,126,991	1,533,837	-	-	2,126,991	1,533,837
Health & human services	175,672	126,757	-	-	175,672	126,757
Culture & recreation	673,040	574,177	-	-	673,040	574,177
Employee pensions	473,826	462,688	-	-	473,826	462,688
Insurance	978,322	947,285	-	-	978,322	947,285
State & county charges	67,528	63,270	-	-	67,528	63,270
Court judgments	-	-	-	-	-	-
Capital Outlay	31,346	-	-	-	31,346	-
Interest on debt	779,009	874,759	-	-	779,009	874,759
Water			673,998	563,582	673,998	563,582
Electric light			7,947,719	7,407,585	7,947,719	7,407,585
Total expenses	18,636,146	17,179,808	8,621,717	7,971,167	27,257,863	25,150,975
Increase in net assets before transfers	1,363,051	808,456	(698,114)	(440,812)	664,937	367,644
Transfers	80,557	72,994	(80,557)	(72,994)	-	-
Increase in net assets	1,443,608	881,450	(778,671)	(513,806)	664,937	367,644
Net assets - Beginning of year	33,986,033	33,104,583	14,871,701	15,385,507	48,857,734	48,490,090
Net assets - End of year	\$ 35,429,641	\$ 33,986,033	\$ 14,093,030	\$ 14,871,701	\$ 49,522,671	\$ 48,857,734

Governmental activities – Governmental activities increased the Town’s net assets by \$1,443,608 or 4.2% during fiscal 2008. A summary of revenues and major functional expenditures is presented above. This decrease is due primarily to the change in accounting method from governmental statements to the district-wide statements as explained in the Reconciliation of the Statement of Revenues, Expenditures, and changes in Fund Balances of Governmental Fund to the Statement of Activities.

Business-type activities – Business type activities decreased the Town’s net assets by \$778,671 or 5.2% during fiscal 2008.

Financial Analysis of Governmental 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 June 30, 2008, the Town’s governmental funds reported combined ending fund balances of \$9,236,182, an increase of \$461,449 in comparison with the prior year, \$8,838,514 of this amount constitutes *unreserved fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is reserved to indicate it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period; continued appropriations for capital outlay and improvement purposes; non-current loans receivable; non expendable permanent fund balances; and community preservation program statutory purpose reserves.

The general fund is the chief operating fund of the Town. At June 30, 2008, unreserved fund balance of the general fund was \$1,260,732, \$ -0- of which was designated to finance the fiscal 2009 budget, while the total fund balance was \$1,643,454. 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 (including transfers to other funds). Unreserved fund balance represents 6.4% of total general fund expenditures (including transfers), while total fund balance also represents 8.4% of the same amount.

Town of Sterling, Massachusetts
General Fund
Fund Balance Trends

The total general fund balance of the Town increased by \$65,685 or 4.2% during fiscal 2008. The major reason for this increase was the use of Stabilization Funds in the amount of \$899,933 to fund the fiscal year 2008 budget. Actual revenues were \$185,841 higher than budgeted and actual expenditures were \$473,996 lower than budgeted.

Total fiscal year 2008 general fund revenues and transfers from other funds totaled \$19,702,337, an increase of \$1,445,748 or 7.9% over the previous fiscal year.

GENERAL FUND
Fund Balance Trends

Source	Amount	% of Total	Increase/ (Decrease)	% Change
Real estate and Personal Property Tax	14,318,833	72.7%	1,394,453	10.8%
Motor Vehicle Excise and other taxes	1,095,469	5.6%	(378,027)	-25.7%
Intergovernmental	2,226,294	11.3%	25,760	1.2%
Departmental and other revenues	619,562	3.1%	84,136	15.7%
Investment Income	188,383	1.0%	(88,916)	-32.1%
Total Revenues	18,448,541	93.6%	1,037,406	6.0%
Transfers from other funds	1,253,796	6.4%	408,342	48.3%
Total revenues and transfers from other funds	19,702,337	100.0%	1,445,748	7.9%

Property tax increase represents a combination of the 2.5% annual increase allowed in the levy under Proposition 2 ½, new growth, decrease in debt exclusions, and collection of prior years' delinquent taxes.

The 25.7% decrease in motor vehicle excise and other taxes is due entirely to a decrease in motor vehicle purchases and a decrease in the value of those vehicles. This trend is consistent with other communities within the Commonwealth.

The 32.1% decrease in investment income is consistent with the decline in the national economy resulting in lower interest rates provided by banks and negative returns from stock and bond investments.

The increase in transfers from other funds resulted primarily in the increased transfers from capital stabilization funds.

Total general fund expenditures and transfers to other funds totaled \$19,636,652 an increase of \$1,161,907 or 6.3% over the previous fiscal year.

Function	Amount	% of Total	Increase/ (Decrease)	% Change
General Government	929,769	4.7%	85,796	10.2%
Public Safety	2,368,028	12.1%	215,582	10.0%
Public Works	1,696,667	8.6%	173,212	11.4%
Health and human services	162,718	0.8%	43,075	36.0%
Culture and recreation	387,556	2.0%	42,837	12.4%
Education	9,417,704	48.0%	588,249	6.7%
Employee pensions and benefits	473,826	2.4%	11,138	2.4%
Insurance	978,322	5.0%	31,037	3.3%
Debt service	2,199,944	11.2%	(78,772)	-3.5%
State and county charges	67,528	0.3%	4,258	6.7%
Capital outlay	15,676	0.1%	15,676	100.0%
Total expenditures	18,697,738	95.2%	1,132,088	6.4%
Transfers to other funds	938,914	4.8%	29,819	3.3%
Total expenditures and transfers to other funds	19,636,652	100.0%	1,161,907	6.3%

The increase of \$215,582 in Public Safety expenditures is due primarily to \$190,000 for the purchase of vehicles.

The increase in Education expenditures is a result of an increase in regional school assessments.

The increase of \$31,037 or 3.3% in insurances and represents an increase in employee group insurance rates.

The decrease in Debt Service is due to debt retirement.

The increase in transfers to other funds is due to an increase in free cash certification.

Other increases in expenditures in fiscal year 2008 are due primarily to contractual wage and salary increases.

Proprietary funds - The Town's proprietary funds provide the same information found in the government-wide statements, but in slightly more detail. Unrestricted net assets amounted to \$412,671 for the water fund; and \$3,198,738 for the electric light fund. The water fund's net assets increased by \$53,036 while the electric light fund's net assets decreased by \$831,707. The major factor for the water fund's increase is due to increased rates. The electric light fund's decrease is due primarily to an increase in purchased power expenses in the amount of \$216,627 and other income decreased by \$178,405.

General Fund Budgetary Highlights:

The difference between the original budget of \$18,971,280 and the final amended budget of \$20,300,093 (\$1,328,813 increase in appropriations) of 7.0% can be summarized as follows:

Transfer to capital stabilization	\$587,792
Transfer to stabilization	320,661
General government	69,799
Public safety	34,383
Public works	294,271
Culture and recreation	25,201
Education	(3,294)
Total	\$1,328,813

Of this increase \$728,253 was funded from free cash; \$180,200 was funded from available fund balances in the general fund; and \$420,360 was funded from available balances in the other funds.

Capital Asset and Debt Administration:

Capital assets – The Town’s capital assets for governmental and business-type activities (excluding the electric light department) as of June 30, 2008, amounts to \$42,272,315 net of accumulated depreciation of \$8,493,555. The capital assets include land; buildings; improvements; machinery and equipment; and water systems.

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	\$ 1,497,816	\$ 1,497,816	\$ 147,200	\$ 147,200	\$ 1,645,016	\$ 1,645,016
Buildings & Improvements	27,392,368	25,984,046	3,858,259	2,665,443	31,250,627	28,649,489
Equipment & machinery	594,911	397,932	80,000	80,000	674,911	477,932
Vehicles	3,504,369	3,326,241	-	-	3,504,369	3,326,241
Software	306,134	306,134	-	-	306,134	306,134
Infrastructure	4,745,854	4,745,854	2,130,592	2,130,592	6,876,446	6,876,446
Construction in progress	-	-	21,998	991,057	21,998	991,057
Total	\$ 38,041,452	\$ 36,258,023	\$ 6,238,049	\$ 6,014,292	\$ 44,279,501	\$ 42,272,315

Major capital asset events during 2008 included the following:

- Total capital assets, net of accumulated depreciation decreased by \$965,466.
- Business-type activity capital assets increased by \$94,886 due to capital purchases of \$223,757 less depreciation of these assets in the amount of \$128,871.
- Government activity capital assets increased by \$870,580 due to capital purchase of \$1,958,374 less depreciation of these assets in the amount of \$1,087,794.

The major purchases were as follows: buildings and improvements of \$1,408,322; vehicle purchases of \$339,073; and equipment of \$210,979.

Additional information on the Town's capital assets may be found in Note 10 to the financial statements.

Long term debt – At June 30, 2008, the Town had total bonded debt outstanding of \$20,010,519, \$16,824,000 for governmental activities and \$3,276,519 for business-type activities. All debt is a general obligation of the Town, although water and electric light debt service payments are made from the resources of the enterprise funds.

	Governmental		Business-type		Total	
	Activities		Activities		Total	
	2008	2007	2008	2007	2008	2007
School construction	\$ 11,920,000	\$ 12,875,000	\$ -	\$ -	\$ 11,920,000	\$ 12,875,000
Public building	2,080,000	2,240,000	-	-	2,080,000	2,240,000
Land acquisition	114,000	125,000	-	-	114,000	125,000
Library renovation	610,000	660,000	-	-	610,000	660,000
Library renovation	30,000	60,000	-	-	30,000	60,000
Fire station	1,650,000	1,750,000	-	-	1,650,000	1,750,000
Fire engine	450,000	515,000	-	-	450,000	515,000
Electric Light	-	-	90,000	180,000	90,000	180,000
Water general obligation	-	-	1,015,000	1,090,000	1,015,000	1,090,000
Water land acquisition	-	-	56,000	60,000	56,000	60,000
MWPAT drinking water	-	-	365,779	387,884	365,779	387,884
Rt. 12 water project	-	-	1,194,740	893,028	1,194,740	893,028
Water general obligation	-	-	555,000	590,000	555,000	590,000
Total	\$ 16,854,000	\$ 18,225,000	\$ 3,276,519	\$ 3,200,910	\$ 20,130,519	\$ 21,425,910

Total long-term bonds and loans outstanding at June 30, 2008 decreased by \$1,295,391 or 6.1% from June 30, 2007. New long term debt incurred during fiscal 2008 included \$301,714 for water construction. Total debt service payments were \$1,627,105.

The Town's bonds are rated A1 by Moody's Investor Services Inc. and Standard & Poor's Rating Services.

Additional information on the Town's long-term debt can be found in Note 11 to the financial statements.

Economic Factors and Next Year's Budgets and Rates:

- According to the Commonwealth of Massachusetts Division of Employment and Training, the average unemployment rate for the Town for 2006 was 4.3%, which compares favorably with state and national unemployment rate.
- According to the U. S. Department of Commerce, the median family income for the Town for 1999 was \$28,844; the per capita income for the same time was \$76,943. This compares favorably with both state and national incomes.

- According to the Town's Board of Assessors the average 2008 single family home in Sterling is valued at \$341,378; the average two-family home is valued at \$317,272; the average three-family home is valued at \$406,129; the average condominium is valued at \$229,586; the average commercial property is valued at \$542,593; and the average industrial property is valued at \$544,826. All properties compare favorable with state and national property values.

The Town approved a fiscal year 2009 general fund budget of \$19,270,220, an increase of 6.0% or \$1,087,482 over the fiscal year 2008 general fund budget. This increase is due in part to increases in wages and insurances. The total approved fiscal year 2009 budget for the Town, including the Water Fund, is \$20,134,141, an increase of \$6.1% or \$1,165,571 over the 2008 total budget.

The total property tax levy for fiscal year 2009 is \$14,539,059, an increase of 5.1% or \$705,993. Local receipts are anticipated to be 4.0% lower than fiscal year 2008 and state aid is anticipated to be 2.3% lower than fiscal year 2008.

Requests for Information

This financial report is designed to provide a general overview of the Town of Sterling'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 the Town Accountant's Office, Town of Sterling, 1 Park Street, Sterling, Massachusetts 01564.

TOWN OF STERLING
Statement of Net Assets
June 30, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,806,524	\$ 1,153,632	\$ 4,960,156
Investments	5,862,460	-	5,862,460
Receivables, net of allowance for uncollectible accounts	696,858	359,956	1,056,814
Due from Other Governmental Agencies	1,077,495	-	1,077,495
Restricted cash	14,946	-	14,946
Prepaid expenses	-	3,036,766	3,036,766
Other assets	-	406,776	406,776
	<u>11,458,283</u>	<u>4,957,130</u>	<u>16,415,413</u>
Noncurrent Assets:			
Cash and cash equivalents	-	1,048,941	1,048,941
Due from Other Governmental Agencies	11,852,447	-	11,852,447
Capital assets, net of accumulated depreciation	30,094,209	12,473,986	42,568,195
	<u>41,946,656</u>	<u>13,522,927</u>	<u>55,469,583</u>
Total Assets	<u>53,404,939</u>	<u>18,480,057</u>	<u>71,884,996</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	202,820	705,452	908,272
Customer deposits	-	303,714	303,714
Performance bonds	271,309	-	271,309
Other accrued liabilities	45,480	35,283	80,763
Accrued interest	208,452	28,676	237,128
Notes payable	-	-	-
Current portion of landfill postclosure care costs	13,658	-	13,658
Current portion of bonds payable	1,406,000	301,753	1,707,753
	<u>2,147,719</u>	<u>1,374,878</u>	<u>3,522,597</u>
Noncurrent Liabilities:			
Bonds payable, net of current portion	15,418,000	2,974,766	18,392,766
Landfill postclosing care costs, net of current portion	334,622	-	334,622
Compensated absences, net of current portion	74,957	37,383	112,340
	<u>15,827,579</u>	<u>3,012,149</u>	<u>18,839,728</u>
Total Liabilities	<u>17,975,298</u>	<u>4,387,027</u>	<u>22,362,325</u>
NET ASSETS			
Invested in capital assets, net of related debt	26,200,151	9,206,621	35,406,772
Restricted for:			
Permanent funds - nonexpendable	490,328	-	490,328
Other purposes	14,946	1,275,000	1,289,946
Unrestricted	8,724,216	3,611,409	12,335,625
Total net assets	<u>\$ 35,429,641</u>	<u>\$ 14,093,030</u>	<u>\$ 49,522,671</u>

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs Primary Government	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities	\$ 972,859	\$ 52,053	\$ -	\$ (525,102)	\$ -	\$ (525,102)
General Government	2,471,797	230,705	-	(1,583,832)	-	(1,583,832)
Public Safety	2,126,991	1,408,995	-	(645,765)	-	(645,765)
Health and Human Services	175,672	8,709	-	107,639	-	107,639
Culture and Recreation	673,040	23,968	-	(619,057)	-	(619,057)
Education	9,885,756	-	-	(9,885,756)	-	(9,885,756)
Interest on Long-term debt	779,009	-	-	(779,009)	-	(779,009)
Employee Pensions	473,826	194,762	-	(279,064)	-	(279,064)
Insurance	978,322	-	-	(978,322)	-	(978,322)
State and County Charges	67,528	-	-	(67,528)	-	(67,528)
Capital Outlay	31,346	-	-	(18,535)	-	(18,535)
Total governmental activities	18,636,146	1,919,192	-	(15,274,331)	-	(15,274,331)
Business-type activities	673,998	-	-	-	133,593	133,593
Water Enterprise	7,947,719	-	-	-	(1,017,941)	(1,017,941)
Electric Light Enterprise	8,621,717	-	-	-	(884,348)	(884,348)
Total business-type activities	27,257,863	-	-	-	(884,348)	(884,348)
Total primary government	\$ 45,894,014	\$ 1,919,192	\$ -	\$ (15,274,331)	\$ (884,348)	\$ (16,158,679)
General revenues:						
Property and excise taxes	15,267,702			15,267,702		15,267,702
Investment earnings	856,049			856,049		1,042,283
Grants and contributions not restricted to specific programs	513,631			513,631		513,631
Transfers	80,557			80,557		-
Total general revenues, special items, and transfers	16,717,939			16,717,939		16,823,616
Change in net assets	1,443,608			1,443,608		664,937
Net assets - beginning, as restated	33,986,033			33,986,033		48,857,734
Net assets - ending	\$ 35,429,641			\$ 35,429,641	\$ 14,093,030	\$ 49,522,671

See accompanying notes to financial statements

TOWN OF STERLING
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General Fund</u>	<u>Capital Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,819,893	\$ 5,282,647	\$ 2,566,444	\$ 9,668,984
Taxes receivable	595,582	-	-	595,582
Receivable from other governments	12,929,942	-	-	12,929,942
Other receivables	-	-	258,599	258,599
Restricted cash	-	-	14,946	14,946
Total assets	<u>\$ 15,345,417</u>	<u>\$ 5,282,647</u>	<u>\$ 2,839,989</u>	<u>\$ 23,468,053</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 202,820	\$ -	\$ -	\$ 202,820
Performance bonds	-	-	271,309	271,309
Deferred revenue	13,453,663	-	258,599	13,712,262
Other	45,480	-	-	45,480
Total liabilities	<u>13,701,963</u>	<u>-</u>	<u>529,908</u>	<u>14,231,871</u>
Fund balances:				
Reserved for:				
Encumbrances and appropriations	371,356	-	-	371,356
Other purposes	11,366	-	14,946	26,312
Unreserved:				
Designated for subsequent year	-	-	-	-
Unreserved, reported in:				
General funds	1,260,732	-	-	1,260,732
Special revenue funds	-	5,282,647	1,038,724	6,321,371
Capital projects funds	-	-	3,215	3,215
Permanent Endowment Fund	-	-	1,253,196	1,253,196
Total fund balances	<u>1,643,454</u>	<u>5,282,647</u>	<u>2,310,081</u>	<u>9,236,182</u>
Total liabilities and fund balances	<u>\$ 15,345,417</u>	<u>\$ 5,282,647</u>	<u>\$ 2,839,989</u>	<u>\$ 23,468,053</u>

See accompanying notes to financial statements

TOWN OF STERLING
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Assets
June 30, 2008

Total fund balance, governmental funds	\$	9,236,182
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		30,094,209
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in Governmental Funds, interest is not reported until due.		(208,452)
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis.		13,554,939
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(17,247,237)
Net Assets of Governmental Activities in the Statement of Net Assets	\$	35,429,641

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Capital Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes and assessments	\$ 15,414,302	\$ -	\$ -	\$ 15,414,302
Fees and fines	243,784	-	359,127	602,911
Licenses and permits	164,778	-	-	164,778
Intergovernmental	2,226,294	-	1,626,442	3,852,736
Charges for services	-	-	307,982	307,982
Investment earnings	188,383	260,591	64,657	513,631
Miscellaneous	211,000	-	30,559	241,559
Contributions and donations	-	-	53,107	53,107
Total revenues	<u>18,448,541</u>	<u>260,591</u>	<u>2,441,874</u>	<u>21,151,006</u>
EXPENDITURES				
General government	929,769	-	65,004	994,773
Public safety	2,368,028	-	259,479	2,627,507
Public works	1,696,667	-	1,445,098	3,141,765
Health and human services	162,718	-	12,572	175,290
Culture and recreation	387,556	-	274,553	662,109
Education	9,417,704	-	-	9,417,704
Employee pensions	473,826	-	-	473,826
Insurance	978,322	-	-	978,322
Debt Service:				
Principal	1,401,000	-	-	1,401,000
Interest and other charges	798,944	-	-	798,944
State and county charges	67,528	-	-	67,528
Capital outlay	15,676	-	15,670	31,346
Total Expenditures	<u>18,697,738</u>	<u>-</u>	<u>2,072,376</u>	<u>20,770,114</u>
Excess (deficiency) of revenues over expenditures	<u>(249,197)</u>	<u>260,591</u>	<u>369,498</u>	<u>380,892</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,253,796	587,792	485,264	2,326,852
Transfers out	(938,914)	(546,838)	(760,543)	(2,246,295)
Total other financing sources and uses	<u>314,882</u>	<u>40,954</u>	<u>(275,279)</u>	<u>80,557</u>
Net change in fund balances	65,685	301,545	94,219	461,449
Fund balances - beginning	1,577,769	4,981,102	2,215,862	8,774,733
Fund balances - ending	<u>\$ 1,643,454</u>	<u>\$ 5,282,647</u>	<u>\$ 2,310,081</u>	<u>\$ 9,236,182</u>

See accompanying notes to financial statements

TOWN OF STERLING

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds: \$ 461,449

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$1,958,374) exceeded depreciation (\$1,087,794) in the current period. 870,580

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (1,151,808)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. 1,401,000

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds	19,935
Landfill postclosure care costs	(149,274)
Accrued employee benefits	(8,274)
	<hr/>

Change in net assets of governmental activities \$ 1,443,608

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the year ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Taxes and assessments	\$ 15,452,027	\$ 15,178,721	\$ 15,435,996	\$ 257,275
Fees and fines	221,500	230,700	243,784	13,084
Licenses and permits	195,000	195,000	164,778	(30,222)
Intergovernmental	2,029,211	2,029,211	2,031,532	2,321
Charges for services	-	-	-	-
Investment earnings	245,000	245,000	188,383	(56,617)
Miscellaneous	40,000	211,000	211,000	-
Total revenues	<u>18,182,738</u>	<u>18,089,632</u>	<u>18,275,473</u>	<u>185,841</u>
EXPENDITURES				
General government	1,119,340	1,168,247	1,113,416	54,831
Public safety	2,431,852	2,451,235	2,372,838	78,397
Public works	1,503,111	1,822,127	1,805,001	17,126
Health and human services	218,961	227,609	217,298	10,311
Culture and recreation	369,960	397,660	387,556	10,104
Education	9,420,998	9,417,704	9,417,704	-
Debt service	2,199,945	2,199,945	2,199,944	1
Employee pensions	279,064	279,064	279,064	-
Insurance	1,282,100	1,282,100	978,322	303,778
State and county charges	66,976	66,976	67,528	(552)
Capital outlay	78,973	78,973	35,276	-
Total Expenditures	<u>18,971,280</u>	<u>19,391,640</u>	<u>18,873,947</u>	<u>473,996</u>
Excess (deficiency) of revenues over expenditures	<u>(788,542)</u>	<u>(1,302,008)</u>	<u>(598,474)</u>	<u>659,837</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term borrowing	-	-	-	-
Transfers in	746,809	1,167,169	1,253,796	86,627
Transfers out	-	(908,453)	(938,913)	(30,460)
Total other financing sources and uses	<u>746,809</u>	<u>258,716</u>	<u>314,883</u>	<u>56,167</u>
Net change in fund balances	(41,733)	(1,043,292)	(283,591)	716,004
Fund balances - beginning	<u>1,484,213</u>	<u>1,484,213</u>	<u>1,484,213</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,442,480</u>	<u>\$ 440,921</u>	<u>\$ 1,200,622</u>	<u>\$ 716,004</u>

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Net Assets
Proprietary Funds
June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Water Enterprise</u> <u>Fund</u>	<u>Electric Light</u> <u>Enterprise Fund</u> <u>(December 31, 2007)</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 470,883	\$ 682,749	\$ 1,153,632
User fees receivable, net	8,252	351,704	359,956
Prepaid expenses	-	3,036,766	3,036,766
Other assets	9,154	397,622	406,776
Total current assets	<u>488,289</u>	<u>4,468,841</u>	<u>4,957,130</u>
Non-current assets:			
Cash and cash equivalents	-	1,048,941	1,048,941
Capital assets, net of accumulated depreciation	4,650,017	7,823,969	12,473,986
Total non-current assets	<u>4,650,017</u>	<u>8,872,910</u>	<u>13,522,927</u>
Total assets	<u>5,138,306</u>	<u>13,341,751</u>	<u>18,480,057</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	34,227.00	671,225	705,452
Other accrued expenses	-	35,283	35,283
Accrued interest	28,110	566	28,676
Customer deposits	-	303,714	303,714
Compensated absences	4,127	33,256	37,383
Notes payable	-	-	-
Current portion of bonds payable	211,753	90,000	301,753
Total current liabilities	<u>278,217</u>	<u>1,134,044</u>	<u>1,412,261</u>
Non-current liabilities:			
Bonds payable, net of current portion	2,974,766	-	2,974,766
Total non-current liabilities	<u>2,974,766</u>	<u>-</u>	<u>2,974,766</u>
Total liabilities	<u>3,252,983</u>	<u>1,134,044</u>	<u>4,387,027</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,472,652	7,733,969	9,206,621
Restricted for other purposes	-	1,275,000	1,275,000
Unrestricted	412,671	3,198,738	3,611,409
Total net assets	<u>\$ 1,885,323</u>	<u>\$ 12,207,707</u>	<u>\$ 14,093,030</u>

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Water Enterprise Fund</u>	<u>Electric Light Enterprise Fund (December 31, 2007)</u>	<u>Total</u>
REVENUES			
Charges for services	\$ 789,352	\$ 6,847,112	\$ 7,636,464
Total operating revenues	<u>789,352</u>	<u>6,847,112</u>	<u>7,636,464</u>
OPERATING EXPENSES			
Personal services	175,709	463,167	638,876
Purchased power expenses	-	5,817,002	5,817,002
Maintenance expenses	-	326,954	326,954
Other supplies and expenses	244,969	897,006	1,141,975
Depreciation	128,871	385,669	514,540
Total Operating Expenses	<u>549,549</u>	<u>7,889,798</u>	<u>8,439,347</u>
Operating income (loss)	<u>239,803</u>	<u>(1,042,686)</u>	<u>(802,883)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	-	186,234	186,234
Other income	18,239	82,666	100,905
Other expenses	-	(40,000)	(40,000)
Interest expense	(124,449)	(17,921)	(142,370)
Total non-operating revenue (expenses)	<u>(106,210)</u>	<u>210,979</u>	<u>104,769</u>
Income (loss) before contributions and transfers	133,593	(831,707)	(698,114)
Transfers in	-	-	-
Transfers out	(80,557)	-	(80,557)
Change in net assets	53,036	(831,707)	(778,671)
Total net assets - beginning	<u>1,832,287</u>	<u>13,039,414</u>	<u>14,871,701</u>
Total net assets - ending	<u>\$ 1,885,323</u>	<u>\$ 12,207,707</u>	<u>\$ 14,093,030</u>

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Cash Flows
Proprietary Funds
June 30, 2008

	<u>Water Enterprise</u> <u>Fund</u>	<u>Electric Light</u> <u>Enterprise Fund</u> <u>(December 31, 2007)</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Receipts from customers and users	772,681	\$ 6,935,659	\$ 7,708,340
Payments to vendors	(210,742)	(6,169,316)	(6,380,058)
Payments to employees	(174,713)	(456,458)	(631,171)
Net cash from operating activities	<u>387,226</u>	<u>309,885</u>	<u>697,111</u>
Cash Flows from Noncapital Financing Activities:			
Net transfers in (out)	(80,557)	-	(80,557)
Net cash from noncapital financing activities	<u>(80,557)</u>	<u>-</u>	<u>(80,557)</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from issuance of bonds and notes	301,714	-	301,714
Depreciation funds used for plant assets	-	58,134	58,134
Acquisition and construction of capital assets	(223,757)	(418,232)	(641,989)
Principal payments on bonds and notes	(131,326)	(90,000)	(221,326)
Customer advances and contributions in aid of construction, net	-	6,187	6,187
Interest expense	(97,218)	(9,855)	(107,073)
Net cash from capital and related financing activities	<u>(150,587)</u>	<u>(453,766)</u>	<u>(604,353)</u>
Cash Flows from Investing Activities:			
Investment income	-	186,234	186,234
Net cash from investing activities	<u>-</u>	<u>186,234</u>	<u>186,234</u>
Net Change in Cash	156,082	42,353	198,435
Cash, beginning of year	314,801	640,396	955,197
Cash, end of year	<u>\$ 470,883</u>	<u>\$ 682,749</u>	<u>\$ 1,153,632</u>

Reconciliation of Operating income to Net Cash

Provided by (used for) Operating Activities:

Operating income	\$ 239,803	\$ (1,042,686)	\$ (802,883)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	128,871	385,669	514,540
Other income	-	33,735	33,735
Other expenses	-	-	-
Changes in assets and liabilities:			
User fees receivable	(16,671)	37,604	20,933
Prepaid expenses	-	1,054,204	1,054,204
Restricted cash	-	-	-
Other assets	-	(43,368)	(43,368)
Accounts payable and other liabilities	35,223	(123,685)	(88,462)
Customer deposits	-	8,412	8,412
Net Cash Provided by (used for) Operating Activities	<u>\$ 387,226</u>	<u>\$ 309,885</u>	<u>\$ 697,111</u>

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Private Purpose</u> <u>Trust Fund -</u> <u>Simple</u>
ASSETS	
Cash and cash equivalents	\$ 183,714
Total assets	183,714
LIABILITIES	
Accounts payable	-
Total liabilities	-
NET ASSETS	
Held in trust for benefits and other purposes	\$ 183,714

See accompanying notes to financial statements

TOWN OF STERLING
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008

	<u>Private Purpose</u> <u>Trust Fund -</u> <u>Simple</u>
ADDITIONS	
Contributions	\$ -
Investment earnings	9,246
Total additions	9,246
DEDUCTIONS	
Need based assistance	2,000
Scholarships awarded	14,200
Total deductions	16,200
Change in net assets	(6,954)
Net assets - beginning	190,668
Net assets - ending	\$ 183,714

See accompanying notes to financial statements

TOWN OF STERLING

INDEX TO NOTES TO FINANCIAL STATEMENTS

<u>Note</u>	<u>Page</u>
1. Summary of significant accounting principles	27
A. General Statement	27
B. Financial Reporting Entity	27 - 28
C. Basis of Presentation	29 - 30
D. Measurement Focus/Basis of Accounting	31
E. Budgetary Control	31 - 32
F. Cash and Investments	32
G. Use of Estimates	32
H. Inventories of Supplies	33
I. Interfund Receivables and Payables	33
J. Compensated Absences	33
K. Encumbrances and Continuing Appropriations	33
L. Transactions Between Funds	33
M. Net Assets	33
N. Claims and Judgments	33
O. Capital Assets	34
P. Reconciliation of Government-Wide and Fund Financial Statements	34
Q. Allowance for Uncollectible Accounts	34 - 35
2. Property Taxes	35
3. Budgetary Basis of Accounting	36
4. Deferred Compensation Plan	36
5. Deposits and Investments	36 - 37
6. Pension Plans	38 - 39
7. Post Retirement Plans	40
8. Reservations of Fund Balances For Combined Nonmajor Funds	40
9. Contingencies	40
10. Capital Assets	41 - 42
11. Long-Term Debt	43 - 45
12. Temporary Borrowings	45
13. Accounts Receivable	46
14. Interfund Transfers	46
15. MMEC Participation and Contingent Liabilities	47 - 49
16. Other Power Purchase Obligations	49

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Town of Sterling, Massachusetts (the "Town") was incorporated in 1781. The Town has an Open Town Meeting form of government and an executive three-member Board of Selectmen. The Town Administrator is responsible for the day-to-day administration of the Town under the direction of the Board of Selectmen.

The Town provides general governmental services, including Public Safety - Police and Fire Protection, Highways and Streets, Sanitation, Health and Social Services, Recreation and Cultural, Public Education for grades K through 12, and General Administrative Services.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

B. Financial Reporting Entity

Primary Government

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- * the organization is legally separate (can sue and be sued in their own name)
- * the Town holds the corporate powers of the organization
- * the Town appoints a voting majority of the organization's board
- * the Town is able to impose its will on the organization
- * the organization has the potential to impose a financial benefit/burden on the Town
- * there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Sterling has no component units.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Joint Ventures

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

The Town participates in two joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the Town's joint ventures and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal 2008 Assessment</u>
Wachusett Regional School District	To provide grades K-12 educational services	Jefferson School 1745 Main Street Jefferson, MA 01522	\$8,778,362
Montachusett Regional Vocational Technical School District	To provide grades 9-12 vocational and technical educational services	1050 Westminster St. Fitchburg, MA 01420	\$ 607,077

The Wachusett Regional School District (the District) is governed by a twenty (20) member school committee consisting of four (4) elected representatives from the Town of Sterling. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an approximately 17.31% equity interest in the joint venture.

The Montachusett Regional Vocational Technical School District (the District) is governed by a twenty-two (22) member school committee consisting of one (1) elected representative from the Town of Sterling. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an approximately 4.91% equity interest in the joint venture.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

C. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, 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 program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental activities typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Town has presented the following major governmental funds:

General Fund - This fund is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General fund. The general fund is always considered a major fund.

Stabilization Fund - This fund is used to account for the accumulation of resources to provide general and/or capital reserves. Use of this fund is subject to Town Meeting approval.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are restricted by law or administrative action to expenditures for specific purposes.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

Permanent Funds - This fund is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support government programs.

Proprietary Fund Financial Statements:

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

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

The following major proprietary funds are reported:

The Water Enterprise Fund is used to account for water activities.

The Electric Light Enterprise Fund is used to account for electric light activities.

Fiduciary Fund Financial Statements:

Private-Purpose Trust Funds - This fund is used to account for resources legally held in trust for student scholarships and residents in need of financial assistance.

Agency Funds - This fund is used to account for assets held by the Town as an agent for individuals, private organizations, and/or other governmental units. The Town reports Student Activity Funds in the Agency Fund.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and electric light services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement costs, landfill postclosure care costs, claims, and judgments are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenue are recognized when received.

E. Budgetary Control

The Town follows the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the Annual Town Meeting, the Town Administrator submits a proposed operating budget to the Finance Committee for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. At the Annual Town Meeting, the Finance Committee makes the recommendation to the voters of their concurrence or non-concurrence with the articles. The voters at the Annual Town Meeting then vote to accept or reject the proposed budget articles.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

- c. On July 1, the budget is legally enacted.
- d. The Board of Assessors will submit to the Commonwealth of Massachusetts' Department of Revenue the Town's Tax Recapitulatory Sheet. The sheet denotes the appropriations passed by the Town voters, sources of estimated revenues and the proposed tax revenues to be raised. The Commonwealth's Department of Revenue will then certify the tax rate to be used in the assessment of taxes to the local property owners (real and personal).
- e. If a need arises, the Town will convene a special town meeting to act on the recommendations of the Finance Committee for additional appropriations.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2008, approved budget for the general fund was \$18,182,738 in appropriations and carryforwards. During fiscal year 2008, supplemental appropriations totaling \$1,055,507 were authorized.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and continuing appropriations, which are adjusted to the actual results for comparison. Deficits, if any, are raised in the subsequent years budget process.

F. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end.

An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents".

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

H. Inventories of Supplies

Supplies are considered to be expenditures at the time of purchase and are not included in the statement of net assets as inventories.

I. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

J. Compensated Absences

Vacation and sick leave expenses are charged to operations when taken by the employees of the Town rather than as earned. Vacation time and sick time must be taken during the fiscal year granted. There are no buy-back provisions.

K. Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

L. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

M. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Claims and Judgments

Estimated losses from judgments and claims are recorded in the Government-Wide financial statements as a liability and as an expense if the loss is probable and amounts can be reasonably estimated.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

O. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$15,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	40-50	Years
Vehicles	2-30	Years
Infrastructure	50	Years
Machinery and Equipment	10-20	Years
Software	4	Years
Electric Light Dept. Assets	30	Years

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances. Other unencumbered appropriations lapse at year-end.

P. Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets (deficit) for governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements, which comprise the reconciliation difference, stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

Q. Allowance for Uncollectible Accounts

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

- * Personal property taxes
- * Real estate taxes deemed not lienable
- * Motor vehicle and other excise taxes
- * Departmental and other

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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

- * Real estate taxes and tax liens
- * Water

Intergovernmental receivables are considered 100% collectible.

2 - PROPERTY TAXES

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent August 1, November 1, February 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting as previously described.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the Town. A secondary limitation is that the levy in a fiscal year may not exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a town-wide referendum vote.

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenues projected to be received by the Town, including available funds.

3 - BUDGETARY BASIS OF ACCOUNTING

The Town of Sterling prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Town's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

THE TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Adjustments necessary to convert the General Fund's excess of revenues and other sources over expenditures and other uses on the budget basis to a GAAP basis are provided below:

Excess of revenues over expenditures - budget basis	\$ (598,474)
Adjustment of property tax revenues to a modified accrual basis	(21,694)
Record revenue recognized for MTRS on-behalf payments	194,762
Record expenditures recognized for MTRS on-behalf payments	(194,762)
End of year adjustment for encumbrances not recognized as expenditures	<u>370,971</u>
Excess of revenues and other sources over expenditures and other uses - GAAP basis	\$ (249,197) =====

4 - DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

5 - DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization or insurance protection by the financial institutions involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of 90 days or less which are collateralized by such securities. The Town also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The Town has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments in relation to the Town's restricted investments in the Permanent Funds.

The composition of the Town's deposits and investments fluctuates throughout the year depending primarily on the timing of property tax receipts, water and sewer revenues, proceeds from borrowings, collections of state and federal aid, and capital outlays.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2008, \$3,731,888 of the Town's bank balance of \$6,738,962 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Investment Summary

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Debt Securities:				
U.S. Agencies	\$3,935,343	\$ 150,704	\$2,970,177	\$ 814,462
U.S. Equities	115,573	-	41,886	73,687
Corporate Bonds	396,808	396,808	-	-
Cash and cash equivalents	<u>1,414,736</u>	<u>964,505</u>	<u>450,231</u>	<u>-</u>
	\$5,862,460	\$1,512,017	\$3,462,294	\$ 888,149
	=====	=====	=====	=====

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments.

Interest Rate Risk of Debt Securities - Investments

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

Credit risk of Debt Securities - Investments

Credit risk of debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2008, the credit quality ratings (per the rating scale of Standard & Poor's, a national credit rating organization) of the Town's investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>		
		<u>AAA</u>	<u>A-A+</u>	<u>Unrated</u>
U.S. Agencies	\$3,935,343	\$3,935,343	\$ -	\$ -
U.S. Equities	115,573	-	-	115,573
Corporate Bonds	396,808	146,950	249,858	-
Cash and cash equivalents	<u>1,414,736</u>	<u>-</u>	<u>-</u>	<u>1,414,736</u>
	\$5,862,460	\$4,082,293	\$ 249,858	\$1,530,309
	=====	=====	=====	=====

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - PENSION PLANS

Worcester Regional Retirement System

Plan Description and Provisions

The Town provides pension benefits for substantially all employees except School Department employees through the Worcester Regional Retirement System (WRRS), a Cost-Sharing Multiple Employer Employee Retirement System established under the Massachusetts Contributory Retirement Law. Benefit provisions and contribution requirements are established by state law.

The system provides for retirement benefits up to a maximum of two and one-half times (2-1/2x) the number of years of service, expressed as a percentage, times a member's average annual compensation for the past three years. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Members of the system become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The plan also provides for early retirement at age 55 if the Participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance.

The Worcester Regional Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for WRRS.

Funding Policy

Active plan members contribute either 5, 7, 8, or 9% of their gross regular compensation depending on the date upon which their membership began, on a pre-tax basis. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. The Town is required to contribute at an actuarially determined rate; the average current rate is 10.92% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the WRRS board of Trustees.

Annual Pension Cost

For 2008, the Town's annual pension cost of \$378,580 was equal to the Town's required and actual contributions. The periodic employer contributions to the retirement system are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded on a schedule that ends no later than the year 2028. The annual amortization of the unfunded actuarial liability increases each year by 4.5%.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

Three Year Trend Information

Fiscal Year <u>Funding</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	Percentage of APC <u>Contribution</u>
2006	\$348,393	100%
2007	373,265	100%
2008	378,580	100%

Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan

The majority of the employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board. Benefit provisions and contribution requirements are established by state law. Eligibility requirements for participation are as follows:

- * The employee must be employed on at least a half-time basis in a contracted professional position within a public school system located in Massachusetts.
- * The employee must be certified by the Massachusetts Department of Education for a position which requires certification.

Participation in the plan requires that members contribute a fixed percentage of their compensation (either 5%, 7%, 8%, or 9%) each pay period. This percentage varies depending upon the date of employment. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000.

Employee contributions vest immediately. After 10 years of service employee benefits become fully vested. After 20 years of service, or upon having attained the age of 55 with at least 10 years of service, employees are eligible to receive benefits under the plan.

Benefits are based on the average of the three highest-salaried years of employee service and are determined in a manner similar to the provisions of WRRS.

The Town has no obligation to contribute to this plan. All pension benefits and expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts. Payments made by the Commonwealth of Massachusetts on behalf of the Town amounted to \$194,762 in fiscal 2008 and are reflected as revenues and corresponding expenditure in the Town's financial statements.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7 - POST RETIREMENT BENEFITS

The Town pays 50 percent of the cost of insurance premiums for health benefits for all personnel who attain retirement age while in the employment of the Town. These costs are appropriated and expended in the fiscal year incurred. For fiscal year ended June 30, 2008, there were 57 retirees receiving benefits and the approximate cost to the Town was \$287,559.

8 - RESERVATIONS OF FUND BALANCES FOR COMBINED NONMAJOR FUNDS

Reservations of fund balances for combined nonmajor funds in the Governmental Funds Balance Sheet are as follows:

Federal and state grants	\$ 14,946
Revolving accounts	1,038,724
Capital Projects funds	3,215
Other Trust funds	<u>1,253,196</u>
	\$ 2,310,081
	=====

9 - CONTINGENCIES

The Town is a party to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings, in the opinion of Town Counsel, are not likely to have a material adverse impact on the Town's financial position.

The Town is contingently liable for its proportionate share of debt of the Montachusett Regional Vocational Technical School and the Wachusett Regional School District.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Town. 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.

The Town's landfill was closed and capped in 2003 by order of the Department of Environmental Protection (DEP). The Town is responsible for post-closure monitoring of the site for thirty years (25.5 years remaining) and the estimated liability has been recorded in the Statement of Net Assets, Governmental Activities. The \$348,280 reported as landfill post-closure liability at June 30, 2008 is based on what it would cost to perform all post-closure care costs at June 30, 2008. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,497,816	\$ -	\$ -	\$ 1,497,816
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,497,816</u>	<u>-</u>	<u>-</u>	<u>1,497,816</u>
Capital assets, being depreciated				
Buildings and improvements	25,984,046	1,408,322	-	27,392,368
Infrastructure	4,745,854	-	-	4,745,854
Machinery and equipment	397,932	216,979	20,000	594,911
Vehicles	3,326,241	339,073	160,945	3,504,369
Software	<u>306,134</u>	<u>-</u>	<u>-</u>	<u>306,134</u>
Total capital assets, being depreciated	<u>34,760,207</u>	<u>1,964,374</u>	<u>180,945</u>	<u>36,543,636</u>
Less accumulated depreciation for:				
Buildings and improvements	3,271,385	666,040	-	3,937,425
Infrastructure	1,762,406	183,275	-	1,945,681
Machinery and equipment	107,114	42,162	14,000	135,276
Vehicles	1,654,048	163,301	160,945	1,656,404
Software	<u>239,441</u>	<u>33,016</u>	<u>-</u>	<u>272,457</u>
Total accumulated depreciation	<u>7,034,394</u>	<u>1,087,794</u>	<u>174,945</u>	<u>7,947,243</u>
Total capital assets, being depreciated, net	<u>27,725,813</u>	<u>876,580</u>	<u>(6,000)</u>	<u>28,596,393</u>
Governments activities capital assets, net	\$ 29,223,629	\$ 876,580	\$ (6,000)	\$ 30,094,209
	=====	=====	=====	=====
Business-Type Activities (Water):				
Capital assets, not being depreciated				
Land	\$ 147,200	\$ -	\$ -	\$ 147,200
Construction in Progress	<u>991,057</u>	<u>21,998</u>	<u>991,057</u>	<u>21,998</u>
Total capital assets, not being depreciated	<u>1,138,257</u>	<u>21,998</u>	<u>991,057</u>	<u>169,198</u>
Capital assets, being depreciated				
Buildings and improvements	2,665,443	1,192,816	-	3,858,259
Machinery and equipment	80,000	-	-	80,000
Infrastructure	<u>2,130,592</u>	<u>-</u>	<u>-</u>	<u>2,130,592</u>
Total capital assets, being depreciated	<u>4,876,035</u>	<u>1,192,816</u>	<u>-</u>	<u>6,068,851</u>
Less accumulated depreciation for:				
Buildings and improvements	343,982	78,659	-	422,641
Machinery and equipment	40,000	8,000	-	48,000
Infrastructure	<u>1,075,179</u>	<u>42,212</u>	<u>-</u>	<u>1,117,391</u>
Total accumulated depreciation	<u>1,459,161</u>	<u>128,871</u>	<u>-</u>	<u>1,588,032</u>
Total capital assets, being depreciated, net	<u>3,416,874</u>	<u>1,063,945</u>	<u>-</u>	<u>4,480,819</u>
Business-type activities capital assets, net	\$ 4,555,131	\$ 1,085,943	\$ (991,057)	\$ 4,650,017
	=====	=====	=====	=====

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Capital asset activity for the electric light department for the year ended December 31, 2007 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities (Electric Light):				
Capital assets, not being depreciated				
Land	\$ 197,008	\$ -	\$ -	\$ 197,008
Construction in Progress	<u>27,285</u>	<u>-</u>	<u>-</u>	<u>27,285</u>
Total capital assets, not being depreciated	<u>224,293</u>	<u>-</u>	<u>-</u>	<u>224,293</u>
Capital assets, being depreciated				
Distribution plant	9,964,743	280,794	59,830	10,185,707
General plant	<u>2,890,892</u>	<u>88,245</u>	<u>20,263</u>	<u>2,958,874</u>
Total capital assets, being depreciated	<u>12,855,635</u>	<u>369,039</u>	<u>80,093</u>	<u>13,144,581</u>
Less accumulated depreciation for:				
Distribution plant	4,358,128	298,943	28,413	4,628,658
General plant	<u>914,896</u>	<u>86,726</u>	<u>4,120</u>	<u>997,502</u>
Total accumulated depreciation	<u>5,273,024</u>	<u>385,669</u>	<u>32,533</u>	<u>5,626,160</u>
Total capital assets, being depreciated, net	<u>7,582,611</u>	<u>(16,630)</u>	<u>(47,560)</u>	<u>7,518,421</u>
Business-type activities capital assets, net	\$ 7,806,904	\$ (16,630)	\$ (47,560)	\$ 7,742,714
	=====	=====	=====	=====

Depreciation expense was charged as direct expenses to programs of the primary government as follows:

Governmental activities:	
General government	\$ 34,830
Public safety	247,545
Public works	270,666
Education	468,052
Culture and recreation	<u>66,701</u>
Total depreciation expense - governmental activities	\$1,087,794
	=====
Business-type activities:	
Water	\$ 128,871
Electric Light	<u>385,669</u>
Total depreciation expense - business-type activities	\$ 514,540
	=====

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

11 - LONG-TERM DEBT

Unmatured general obligation bonds payable consist of the following:

<u>Purpose of Issue</u>	<u>Governmental</u>	<u>Business-type</u>
Police & Fire Renovations, serial issue maturities through 2021, bearing interest rates of 4.0% to 5.0%	\$ 2,080,000	\$ -
School Construction, serial issue maturities through 2011, bearing interest rates of 5.0% to 5.75%	2,730,000	-
Griffin Road Land, serial issue maturities through 2019, bearing interest rates of 4.0% to 5.0%	114,000	-
Library Renovations, serial issue maturities through 2021, bearing interest rates of 4.0% to 5.0%	610,000	-
Library Renovations, serial issue maturities through 2009, bearing interest rate of 4.35%	30,000	-
Fire Station Renovation, serial issue maturities through 2025, bearing interest rates of 4.0% to 4.6%	1,650,000	-
Fire Truck, serial issue maturities through 2015, bearing interest rates of 4.0 to 4.6%	450,000	-
Refunding issue of 2006, serial issue maturities through 2020, bearing interest rate of 4.0%	9,160,000	-
Water Tank, serial issue maturities through 2021, bearing interest rates of 4.0% to 5.0%	-	1,015,000
Water Tank Land, serial issue maturities through 2020, bearing interest rates of 4.0% to 5.0%	-	56,000
Taft Road Water Mains, serial issue maturities through 2025, bearing interest rates of 4.0% to 4.6%	-	555,000
Rt. 12 Water, serial issue maturities through 2018, bearing interest rate of 4.15%	-	388,000
Rt. 12 Water (MWPAT), serial issue maturities through 2027, bearing interest rate of 2%	-	806,740
Water Disinfecting Plant, serial issue maturities through 2021, bearing interest rate of 0%	-	365,779
SMLD, serial issues maturities through 2008, bearing interest rate of 7.3%	-	90,000
	<u>\$16,824,000</u>	<u>\$ 3,276,519</u>
	=====	=====

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

General Obligation Bonds -

General obligation bonds are backed by the full faith and credit of the Town. The state has approved school construction assistance subject to annual appropriation by the legislature to partially provide resources for future principal and interest requirements.

Transactions for the year ended June 30, 2008 are summarized as follows:

	Balance July 1	Issues or Additions	Payments or Expenditures	Balance June 30	Due Within One Year
<u>Governmental Type Activities</u>					
General Obligation Bonds	\$ 18,225,000	\$ -	\$ 1,401,000	\$ 16,824,000	\$ 1,406,000
Compensated Absences	66,683	8,274	-	74,957	-
Landfill Postclosure Care-Costs	199,006	162,932	13,658	348,280	13,658
Total governmental activities	18,490,689	171,206	1,414,658	17,247,237	1,419,658
<u>Business Type Activities</u>					
General Obligation Bonds - Water Dept.	2,127,884	1,194,740	136,105	3,186,519	211,753
Bond Anticipation Notes - Water Dept.	893,026	-	893,026	-	-
General Obligation Bonds - Light Dept.	180,000	-	90,000	90,000	90,000
Compensated Absences - Water Dept.	3,131	996	-	4,127	-
- Light Dept.	26,547	6,709	-	33,256	-
Total business-type activities	3,230,588	1,202,445	1,119,131	3,313,902	301,753
Total government	\$ 21,721,277	\$ 1,373,651	\$ 2,533,789	\$ 20,561,139	\$ 1,721,411
	=====	=====	=====	=====	=====

Annual Requirements to Retire Debt Obligations -

The annual aggregate maturities for each bond type for the years subsequent to June 30, 2008 are as follows:

Year Ending	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
June 30					
2009	\$ 1,406,000	\$ 731,799	\$ 301,753	\$ 132,872	\$ 2,572,424
2010	1,381,000	663,627	211,448	115,918	2,371,993
2011	1,385,000	596,076	213,961	107,487	2,302,524
2012	1,385,000	523,650	215,237	98,955	2,222,842
2013	1,370,000	467,178	215,949	89,685	2,142,812
2014-2018	6,606,000	1,510,283	1,114,937	312,464	9,543,684
2019-2023	3,101,000	281,305	710,020	99,133	4,191,458
2024-2028	190,000	12,302	293,214	16,621	512,137
	16,824,000	4,786,220	3,276,519	973,135	25,859,874
Bond Antic. Notes	-	-	-	-	-
	\$16,824,000	\$ 4,786,220	\$ 3,276,519	\$ 973,135	\$25,859,874
	=====	=====	=====	=====	=====

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

Bond anticipation notes are classified as general obligation bonds when the criteria established by FASB-6 (Classification of Short-term Obligations Expected to be Refinanced) are satisfied.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Town to rebate excess arbitrage earnings from bond proceeds to the federal government.

Bonds Authorized and Unissued -

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there may be categories of general obligation debt which are exempt from the debt limit but are subject to other limitations, including debt incurred under the Funding Loan Act of 1971.

Bonds authorized and unissued at June 30, 2008 is as follows:

Rt 12 Water Project	\$	260
		=====

Loan Subsidy

The Town receives loan principal and interest subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT) for Water contrustion projects. Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2008, the Town's subsidy totaled \$18,239.

12 - TEMPORARY BORROWINGS

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary basis to fund the following:

1. Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANs or TANs).
2. Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs).
3. Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of Federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates which are limited by statute.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

13 - ACCOUNTS RECEIVABLE

At June 30, 2008, receivables, including the applicable allowances for uncollectible amounts are as follows:

Governmental Funds:

	<u>Gross Amount</u>	<u>Allowances for Uncollectibles</u>	<u>Net Amount</u>
Real estate and personal property taxes	\$ 284,751	\$ (35,274)	\$ 249,477
Tax liens	108,335	-	108,335
Motor vehicle and other excise taxes	202,496	(47,271)	155,225
Other	258,599	(74,778)	183,821
Intergovernmental	<u>12,929,942</u>	<u>-</u>	<u>12,929,942</u>
	<u>\$13,784,123</u>	<u>\$ (157,323)</u>	<u>\$13,626,800</u>
	=====	=====	=====

Business-type Funds:

	<u>Gross Amount</u>	<u>Allowances for Uncollectibles</u>	<u>Net Amount</u>
Water user charges	\$ 8,252	\$ -	\$ 8,252
Electric light charges	<u>356,704</u>	<u>(5,000)</u>	<u>351,704</u>
	<u>\$ 364,956</u>	<u>\$ (5,000)</u>	<u>\$ 359,956</u>
	=====	=====	=====

14 - INTERFUND TRANSFERS

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

<u>Transfers Out</u>	<u>General Fund</u>	<u>Capital Stabilization Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water Enterprise Fund</u>	<u>Total</u>
General Fund	\$ -	\$ 587,792	\$ 351,122	\$ -	\$ 938,914 (1)
Nonmajor Governmental Funds	626,401	-	-	-	626,401 (2)
Capital stabilization Fund	546,838	-	-	-	546,838 (3)
Water Enterprise Fund	<u>80,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,557 (4)</u>
	<u>\$ 845,454</u>	<u>\$ 587,792</u>	<u>\$ 351,122</u>	<u>\$ -</u>	<u>\$2,192,710</u>
	=====	=====	=====	=====	=====

(1) Represents budgeted transfers to capital stabilization fund (\$587,792) and nonmajor stabilization fund (\$320,661). There was a financial statement reclass between funds for prior years (\$30,461).

(2) Represents budgeted transfers from nonmajor ambulance fund (\$273,306) and nonmajor stabilization fund (\$353,095) to fund operating budget and capital expenditures.

(3) Represents budgeted transfer from capital stabilization fund (\$546,838) to fund capital expenditures.

(4) Represents budgeted transfer of water fund indirect costs (\$80,557).

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

15 - MMWEC PARTICIPATION AND CONTINGENT LIABILITIES

The Town of Sterling, acting through its Municipal Electric Department, is a participant in certain projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop bulk power supply for its members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its members and other utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's amended and restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment for the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and a subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear units. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an additional twenty years. The license for Unit 2 was extended to July 31, 2035 and the license for Unit 3 was extended to November 25, 2045.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC (FPLE Seabrook), the majority owner and an indirect subsidiary of FPL Group, Inc. In December 2005, the NRC issued an amendment to the operating license that extends the expiration from October 2026 to March 2030, to recapture the period 1986 to 1990 during which time Seabrook had an operating license, but did not operate. FPLE Seabrook has stated its intention to request an extension of the Seabrook Station operating license beyond March 2030.

Pusuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which is being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Sterling Municipal Electric Light Department has entered in PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and the PPAs, the Light Department is required to make certain payments to MMWEC payable solely from Light Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the Company.

As of December 31, 2007, total capital expenditures for MMWEC's Projects amounted to \$1,538,931,000, of which \$20,318,000 represents the amount associated with the Light Department's share of the Project Capability of the Projects in which it participates. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$641,630,000, of which, \$8,395,000 is associated with the Light Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Light Department. As of December 31, 2007, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$763,040,000, of which \$10,063,000 is anticipated to be billed to the Light Department in the future.

TOWN OF STERLING, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

The estimated aggregate amount of Sterling Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2007, and estimated for future years is as follows:

<u>For year ended</u> <u>December 31</u>	<u>Annual Costs</u>
2008	\$ 1,266,000
2009	1,146,000
2010	1,042,000
2011	1,034,000
2012	1,036,000
2013 to 2017	4,423,000
2018 to 2019	<u>116,000</u>
	\$ 10,063,000
	=====

In addition, the Light Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Light Department's total O&M costs including debt service under the PSAs were \$2,411,000 for the year ended December 31, 2007.

16 - OTHER POWER PURCHASE OBLIGATIONS

In addition to its contracts to purchase power through MMWEC, the Light Department had an agreement to purchase power from Northeast Utilities under a contract with terms ranging through 2010. In 2005 Northeast Utilities announced that it was leaving the wholesale energy market and that it would not honor its contracts. The Light Department received power under the contract through March 2006 and negotiated a cash settlement of \$3,000,000 to pay the additional cost of power after the old contract was terminated. That amount has been placed in a reserve account with MMWEC to be used for purchased power costs. In 2007, the Light Department expended \$1,175,000 of the reserve.

ACCOMPANYING INFORMATION

TOWN OF STERLING, MASSACHUSETTS

SCHEDULE OF TREASURER'S CASH

JUNE 30, 2008

Non-interest Bearing Bank Accounts	
Fidelity Bank	\$ <u>15,000</u>
Interest Bearing Bank Accounts	
Fidelity Bank	29,735
Flagship Bank	420,434
Unibank for Savings	598,644
Sovereign Bank	1,057,759
Bank of Western Mass	554,861
TD Banknorth	1,576,799
Clinton Savings	97,022
Century Bank	129,767
Massachusetts Municipal Depository Trust	900,531
Webster Bank	<u>814,807</u>
	<u>6,180,359</u>
Investments	
Multi-Bank Securities, Inc.	506,764
Commonwealth Financial Network	<u>5,355,696</u>
	<u>5,862,460</u>
Petty Cash	<u>235</u>
Total Treasurer's Cash	\$12,058,054 =====

See accompanying auditors' report on accompanying information