

TOWN OF WARE, MASSACHUSETTS

**REPORT ON THE EXAMINATION
OF BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2007

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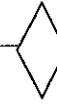
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Independent Auditors' Report



To the Honorable Board of Selectmen
Town of Ware, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Ware, Massachusetts, as of and for the fiscal year ended June 30, 2007, which comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Ware, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also 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, each major fund, and the aggregate remaining fund information of the Town of Ware, Massachusetts, as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the fiscal 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 March 7, 2008, on our consideration of the Town of Ware, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ware, Massachusetts, basic financial statements. The supplementary supporting statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Ware, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are

fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

A handwritten signature in black ink, appearing to read 'T. Scanlon', with a long horizontal line extending to the right.

THOMAS J. SCANLON,
Certified Public Accountant

South Deerfield, Massachusetts
March 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

Financial Highlights

- The Town's assets exceeded its liabilities by \$27,849,232 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$30,848,918 or a decrease of \$2,999,686.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$20,336,495 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$2,356,040 are restricted by constraints imposed from outside the Town such as grantors, laws or regulations.
 - (3) Unrestricted net assets of \$5,156,697 represent a portion available to maintain the Town's continuing obligations to citizens and creditors.
- The Town's governmental funds reported total ending fund balance of \$4,522,954 this year. This compares to the prior year ending fund balance of \$7,540,846 showing a decrease of \$3,017,892 during the current year. Unreserved/undesignated fund balance of \$1,986,876 for fiscal year 2007 shows a \$70,601 increase from the prior year.
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$1,986,876, or 6.95% of total General Fund expenditures including transfers and 7.11% of total General Fund revenues including transfers, the sale of Town property and execution of a capital lease.
- Total liabilities of the Town increased by \$2,311,510 to \$19,794,043.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The Town does not have any operations that are classified as business-type activities.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows 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 financial 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 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 decision. 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 of Ware adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to

support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Financial Highlights

Statement of Net Assets Highlights

	Governmental Activities		
	2007	2006	Change
Assets:			
Current assets	\$ 11,627,293	\$ 11,388,315	\$ 238,978
Noncurrent assets (excluding capital assets)	8,702,274	11,626,805	(2,924,531)
Capital assets	27,313,708	25,316,331	1,997,377
Total assets	47,643,275	48,331,451	(688,176)
Liabilities:			
Current liabilities (excluding debt and leases)	1,540,390	997,307	543,083
Noncurrent liabilities (excluding debt)	429,625	273,801	155,824
Current debt including leases	5,369,453	2,471,264	2,898,189
Noncurrent debt including leases	12,454,575	13,740,161	(1,285,586)
Total liabilities	19,794,043	17,482,533	2,311,510
Net Assets:			
Capital assets net of related debt	20,336,495	22,493,599	(2,157,104)
Restricted	2,356,040	1,835,854	520,186
Unrestricted	5,156,697	6,519,465	(1,362,768)
Total net assets	27,849,232	30,848,918	(2,999,686)

Financial Highlights

Statement of Activities Highlights

	Governmental Activities		
	2007	2006	Change
Program Revenues:			
Charges for services	\$ 2,197,087	\$ 2,168,702	\$ 28,385
Operating grants and contributions	13,773,857	12,786,644	987,213
Capital grants and contributions	1,094,239	1,269,205	(174,966)
General Revenues:			
Property taxes	9,947,763	9,586,146	361,617
Motor vehicle excise and other taxes	888,856	966,946	(78,090)
Penalties and interest on taxes	73,944	82,048	(8,104)
Nonrestricted grants	2,521,198	2,056,366	464,832
Unrestricted investment income	268,239	239,357	28,882
Miscellaneous	5,680	8,973	(3,293)
Total revenues	30,770,863	29,164,387	1,606,476
Expenses:			
General government	2,213,227	1,251,979	961,248
Public safety	3,308,559	2,869,085	439,474
Public works (Including Water & Sewer)	2,582,813	2,428,862	153,951
Education	17,324,954	13,894,160	3,430,794
Health and human services	411,884	802,038	(390,154)
Culture and recreation	476,884	413,238	63,646
Employee benefits and insurance	5,550,322	5,179,801	370,521
State assessments	1,421,268	1,378,522	42,746
Interest	664,313	976,938	(312,625)
Total expenses	33,954,224	29,194,623	4,759,601
Contributions to permanent funds	1,175	1,409	(234)
Special Item - Gain on Sale of Town Property	182,500	506,540	(324,040)
Change in net assets	(2,999,686)	477,713	(3,477,399)
Net assets - beginning of year	30,848,918	30,371,205	477,713
Net assets - end of year	\$ 27,849,232	\$ 30,848,918	\$ (2,999,686)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$27,849,232 at the close of FY 2007.

Net assets of \$20,336,495 (73%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted

that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$2,356,040 (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$5,156,697 (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

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 activities.

The governmental activities net assets decreased by \$2,999,686 during the current fiscal year, which reflects the general fund's results of operation. This was mainly attributed to expenses exceeding revenues by \$3,183,361, contributions to permanent funds of \$1,175 and sale of Town property for \$182,500. A majority of the decrease is the result of the final school building authority reimbursement on the high school project being less than what was originally estimated because of a reduction in interest.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,522,954. Of this year-end total, \$1,986,876 is the undesignated general fund balance, indicating availability for continuing Town service requirements. Reserved and designated fund balances include \$909,331 committed to liquidate encumbrances and carried forward articles remaining from the prior year; \$875,100 in funds designated for fiscal year 2008, \$2,284,972 in special revenue funds; \$(1,683,720) in capital project funds; \$135,378 in perpetual permanent funds and \$15,017 in permanent funds.

The total ending fund balances of the governmental funds shows a decrease of \$3,017,892 in comparison with the prior year. This decrease was mainly due to expenditures exceeding revenues by \$3,395,270, the execution of a capital lease in the amount of \$74,878, the sale of foreclosure property of \$182,500 and proceeds of notes/bonds for \$120,000.

Major Governmental Funds

The *General Fund* is the Town's primary operating fund and the largest source of day-to-day operations. At the end of the current fiscal year, unreserved/undesignated fund balance of the general fund was \$1,986,876, while total fund balance reached \$3,316,557. As a measure of the general fund's liquidity, it may be useful to compare

both unreserved/undesignated fund balance and total fund balance to total fund expenditures and revenues and transfers. Unreserved/undesignated fund balance represents 6.95% of total general fund expenditures including transfers and total fund balance represents 11.61% of that same amount. Unreserved/undesignated fund balance represents 7.11% of total general fund revenues including transfers, the execution of a capital lease and the sale of foreclosure property and total fund balance represents 11.87% of that same amount.

The fund balance of the general fund decreased by \$638,783. Of this amount \$2,379,740 was attributed to the expenditures over revenues, \$1,483,579 of net transfers from other governmental funds, \$182,500 from the sale of Town property and \$74,878 from the proceeds of a capital lease.

The *Stabilization Fund* has accumulated a fund balance of \$1,026,803, or 3.59% of total general fund expenditures including transfers and 3.68% of total general fund revenues including transfers, the execution of a capital lease and the sale of Town property. These funds can be used for general or capital purposes upon Town meeting approval.

The fund balance of the stabilization fund increased by \$463,407. Of this amount \$37,868 was attributed to interest income and net transfers from the general fund for \$425,539. Please refer to Note 3H for additional information.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2007 was \$27,799,465. This was an increase of \$2,003,551 over the previous year's budget.

There was an increase of \$642,432 between the original budget and the final amended budget. Increases of more than \$5,000 are attributed from the Town amending specific expenditure line items of the final budget, primarily increasing the following; school budget for \$287,086, salary increases for \$190,824, report of the charter commission for \$45,000, police capital outlay for \$29,000, road repairs for \$26,000, fire capital outlay for \$15,000, restoration of the meeting house for \$10,000, Christmas decorations for \$10,000, fireworks celebration for \$10,000, Town election expenses for \$8,000, police expenses for \$7,100 and weights and measures for \$3,250.

Of the \$1,604,336 in under budget expenditures \$909,331 has been carried over to fiscal year 2008.

Negative variances existed in excise and other taxes, licenses, permits and fees and interest on taxes of \$86,277, \$70,769 and \$10,927, respectively. In excise and other taxes this was because the basis of the budget was based upon last year's receipts and as a result of the economy current excise receipts were less. Licenses, permits and fees were lower primarily as a result of water collections being less than what was budgeted.

A negative variance of \$18,643 exists in public works. This was attributed to snow and ice expenditures exceeding the budgeted amounts.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities as of June 30, 2007 amounts to \$27,313,708.

The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

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

- A dump truck for \$105,549.
- A loader for \$125,380.
- Two pickup trucks for \$45,875.
- Three police vehicles for \$84,515.
- Fire ladder truck for \$758,794.
- Fire equipment for \$7,830.
- Parks and recreation truck for \$29,003.
- Council on aging building and improvements for \$538,300.
- Fire station Brownfields project for \$9,613.
- Chlorination corrosion facility improvements for \$494,061.
- Veterans Park restoration for \$35,855.
- Road improvements for \$917,015.
- Streets and sidewalks for \$30,258.
- Water mains for \$86,037.

Debt Administration. The Town's outstanding governmental debt, as of June 30, 2007, totaled \$13,648,000, of which \$11,410,000 is for the school project, \$580,000 is for a water project, \$178,500 is for public works projects, \$325,000 is for the police station, \$603,000 is for landfill projects, \$182,600 for departmental equipment, \$124,100 for Town building remodeling, \$54,000 for sewer lines, \$30,800 for dam repairs, \$40,000 for land acquisition and PVPC-Brownfield Clean-up for \$120,000.

The Town also has capital leases for the school boiler, a police cruiser, a loader/backhoe, a dump truck, a sander dump truck, an administration vehicle for the fire department, a truck for the parks and recreation department and a truck and pickup truck for the public works department. The lease agreements qualify as capital leases for accounting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

Town currently owes \$295,322 on the leases consisting of \$265,686 in principal and \$29,636 in interest.

Please refer to notes 3C, 3E, 3F and 3G for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Ware'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, Town Hall, 126 Main Street, Ware, Massachusetts.

BASIC FINANCIAL STATEMENTS

**TOWN OF WARE, MASSACHUSETTS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	<u>Primary Government Governmental Activities</u>
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 7,053,191
Investments	576,391
Cash in Custody of Others	227,882
Receivables, net of allowance for uncollectibles:	
Property Taxes	230,195
Tax Liens	167,658
Taxes Possessions	375,939
Excise Taxes	141,317
User Charges	45,442
Departmental	150,937
Loans	4,110
Due from Other Governments	2,654,231
Total current assets	<u>11,627,293</u>
NONCURRENT:	
Receivables, net of allowance for uncollectibles:	
Due from Other Governments	8,702,274
Capital Assets, net of accumulated Depreciation:	
Nondepreciable	4,477,540
Depreciable	22,836,168
Total noncurrent assets	<u>36,015,982</u>
Total Assets	<u><u>47,643,275</u></u>
LIABILITIES	
CURRENT:	
Warrants Payable	906,418
Accrued Payroll	126,874
Payroll Withholdings	78,430
Tax Refund Payable	90,000
Taxes Collected in Advance	49,880
Accrued Interest	182,933
Compensated Absences	105,855
Notes Payable	3,910,342
Bonds and Leases Payable	1,459,111
Total current liabilities	<u>6,909,843</u>
NONCURRENT:	
Compensated Absences	429,625
Bonds and Leases Payable	12,454,575
Total noncurrent liabilities	<u>12,884,200</u>
Total Liabilities	<u><u>19,794,043</u></u>
NET ASSETS:	
Invested in Capital Assets, net of related debt	20,336,495
Restricted for:	
Capital Projects	909,280
Federal & State Grants	824,219
Permanent Funds:	
Expendable	15,017
Nonexpendable	135,378
Other Purposes	472,146
Unrestricted	5,156,697
Total Net Assets	<u><u>\$ 27,849,232</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF WARE, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Program Revenues			Net (Expenses) Revenues and and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,213,227	\$ 250,142	\$ 1,022,122	\$ 55,000
Public Safety	3,308,559	768,729	129,177	-
Public Works (Including Water & Sewer)	2,582,813	832,177	15,544	1,039,239
Education	17,324,954	285,746	10,153,764	-
Health and Human Services	411,884	37,505	199,133	-
Culture and Recreation	476,884	22,788	37,232	-
Employee Benefits and Insurance	5,550,322	-	1,807,144	-
State Assessments	1,421,268	-	-	-
Interest	664,313	-	409,741	-
Total Governmental Activities	33,954,224	2,197,087	13,773,857	1,094,239
Total Primary Government	\$ 33,954,224	\$ 2,197,087	\$ 13,773,857	\$ 1,094,239
General Revenues:				
Property Taxes				9,947,763
Motor vehicle excise and other taxes				888,856
Penalties & Interest on Taxes				73,944
Grants & Contributions not restricted to specific programs				2,521,198
Unrestricted Investment Income				268,239
Miscellaneous				5,680
Contributions to Permanent Funds				1,175
Special Items:				
Gain on Sale of Town Property				182,500
Total General Revenues, Special Items and Contributions				13,889,355
Change in Net Assets				(2,999,686)
Net Assets:				
Beginning of year				30,848,918
End of year				\$ 27,849,232

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF WARE, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,992,060	\$ 683,108	\$ 2,378,023	\$ 7,053,191
Investments	-	343,695	232,696	576,391
Cash in Custody of Others	-	-	227,882	227,882
Receivables, net of allowance for uncollectibles:				
Property Taxes	230,195	-	-	230,195
Tax Liens	167,658	-	-	167,658
Tax Possessions	375,939	-	-	375,939
Excise Taxes	141,317	-	-	141,317
User Charges	45,442	-	-	45,442
Departmental	103,933	-	47,004	150,937
Loans	-	-	4,110	4,110
Due from Other Governments	9,377,285	-	1,827,032	11,204,317
Total Assets	\$ 14,433,829	\$ 1,026,803	\$ 4,716,747	\$ 20,177,379
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Warrants Payable	\$ 406,596	\$ -	\$ 499,822	\$ 906,418
Accrued Payroll	96,725	-	30,149	126,874
Payroll Withholdings	78,430	-	-	78,430
Tax Refund Payable	90,000	-	-	90,000
Taxes Collected in Advance	49,880	-	-	49,880
Accrued Interest on Short-Term Debt	16,372	-	-	16,372
Deferred Revenue:				
Property Taxes	167,695	-	-	167,695
Other	10,211,574	-	96,840	10,308,414
Notes Payable	-	-	3,910,342	3,910,342
Total Liabilities	11,117,272	-	4,537,153	15,654,425
Fund Balance:				
Reserved For:				
Encumbrances and continuing appropriations	909,331	-	-	909,331
Perpetual Permanent Funds	-	-	135,378	135,378
Unreserved:				
Designated for Subsequent Years' Expenditures	420,350	413,435	41,315	875,100
Undesignated, reported in:				
General Fund	1,986,876	-	-	1,986,876
Special Revenue	-	613,368	1,671,604	2,284,972
Capital Projects	-	-	(1,683,720)	(1,683,720)
Permanent Funds	-	-	15,017	15,017
Total Fund Balance	3,316,557	1,026,803	179,594	4,522,954
Total Liabilities and Fund Balance	\$ 14,433,829	\$ 1,026,803	\$ 4,716,747	\$ 20,177,379

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF WARE, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 9,982,620	\$ -	\$ -	\$ 9,982,620
State Receipts	11,511,108	-	-	11,511,108
Excise and Other Taxes	882,625	-	-	882,625
Licenses, Permits, Fees	1,218,391	-	-	1,218,391
Interest on Taxes	73,944	-	-	73,944
Interest on Investments	230,371	37,868	16,803	285,042
Intergovernmental - "On-behalf" Payments	1,838,043	-	-	1,838,043
Additions	-	-	1,175	1,175
Grants and Fees	-	-	5,962,738	5,962,738
Total Revenues	25,737,102	37,868	5,980,716	31,755,686
Expenditures:				
Current:				
General Government	1,100,028	-	1,200,205	2,300,233
Public Safety	2,916,639	-	980,109	3,896,748
Public Works (including water and sewer)	2,087,056	-	1,938,261	4,025,317
Education	12,159,808	-	2,296,765	14,456,573
Health and Human Services	308,749	-	587,988	896,737
Culture and Recreation	453,985	-	30,786	484,771
Employee Benefits and Insurance	5,550,322	-	-	5,550,322
State Assessments	1,421,268	-	-	1,421,268
Debt Service:				
Principal	1,445,068	-	-	1,445,068
Interest	673,919	-	-	673,919
Total Expenditures	28,116,842	-	7,034,114	35,150,956
Excess of Revenues Over (Under) Expenditures	(2,379,740)	37,868	(1,053,398)	(3,395,270)
Other Financing Sources (Uses):				
Operating Transfers In	1,937,118	453,539	-	2,390,657
Operating Transfers Out	(453,539)	(28,000)	(1,909,118)	(2,390,657)
Sale of Town Property	182,500	-	-	182,500
Capital Lease	74,878	-	-	74,878
Proceeds of Notes/Bonds	-	-	120,000	120,000
Total Other Financing Sources (Uses)	1,740,957	425,539	(1,789,118)	377,378
Net Change in Fund Balances	(638,783)	463,407	(2,842,516)	(3,017,892)
Fund Balances, Beginning of Year	3,955,340	563,396	3,022,110	7,540,846
Fund Balances, End of Year	\$ 3,316,557	\$ 1,026,803	\$ 179,594	\$ 4,522,954

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF WARE, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
For the Year Ended June 30, 2007

Total Governmental Fund Balances		\$ 4,522,954
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds		27,313,708
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis		10,628,297
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:		
Bonds and Leases Payable	\$ (13,913,686)	
Compensated Absences	<u>(535,480)</u>	(14,449,166)
In statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds interest is not reported until due		<u>(166,561)</u>
Net Assets of Governmental Activities		<u><u>\$ 27,849,232</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF WARE, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	(3,017,892)
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Outlay Purchases	\$ 3,268,085		
Depreciation	<u>(1,270,708)</u>		1,997,377

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue

(3,031,674)

The Issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayment of Debt and Lease Principal	1,473,106		
Capital Lease Financing	(74,878)		
Proceeds of Bonds	<u>(120,000)</u>		1,278,228

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Net Change in Compensated Absences	(235,331)		
Net Change in Accrued Interest on Long-Term Debt	<u>9,606</u>		(225,725)

Change in Net Assets of Governmental Activities	\$	<u>(2,999,686)</u>
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The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF WARE, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGETARY BASIS - (NON-GAAP) -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Amounts	Variance with
	Original	Final	Budgetary	Carried	Final Budget
	Budget	Budget	Basis	Forward	Positive
				to Next Year	(Negative)
Revenues:					
Property Taxes	\$ 10,446,383	\$ 9,818,511	\$ 9,996,345	\$ -	\$ 177,834
State Receipts	11,006,852	11,006,852	11,511,108	-	504,256
Excise and Other Taxes	968,902	968,902	882,625	-	(86,277)
Licenses, Permits, Fees	1,289,160	1,289,160	1,218,391	-	(70,769)
Interest on Taxes	84,871	84,871	73,944	-	(10,927)
Interest on Investments	224,091	224,091	230,371	-	6,280
Total Revenues	24,020,259	23,392,387	23,912,784	-	520,397
Expenditures:					
Current:					
General Government	1,411,034	1,448,284	1,100,028	226,388	121,868
Public Safety	2,749,757	2,993,079	2,916,639	2,736	73,704
Public Works (including water and sewer)	2,032,878	2,058,480	2,041,181	35,942	(18,643)
Education	12,429,135	12,716,221	12,159,808	490,817	65,596
Health and Human Services	354,181	357,353	308,749	23,214	25,390
Culture and Recreation	523,510	569,510	424,982	61,845	82,683
Employee Benefits and Insurance	3,950,341	3,950,341	3,743,178	68,389	138,774
State Assessments	1,514,740	1,514,740	1,421,268	-	93,472
Debt Service:					
Principal	1,435,003	1,435,003	1,435,001	-	2
Interest	756,454	756,454	644,295	-	112,159
Total Expenditures	27,157,033	27,799,465	26,195,129	909,331	695,005
Excess of Revenues Over (Under) Expenditures	(3,136,774)	(4,407,078)	(2,282,345)	(909,331)	1,215,402
Other Financing Sources (Uses):					
Operating Transfers In (Out)	1,232,645	802,106	1,483,579	-	681,473
Sale of Foreclosure Property	-	-	182,500	-	182,500
Total Other Financing Sources (Uses)	1,232,645	802,106	1,666,079	-	863,973
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(1,904,129)	(3,604,972)	(616,266)	(909,331)	2,079,375
Budgetary Fund Balance - Beginning of Year	3,976,696	3,976,696	3,976,696	-	-
Budgetary Fund Balance - End of Year	\$ 2,072,567	\$ 371,724	\$ 3,360,430	\$ (909,331)	\$ 2,079,375

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF WARE, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2007

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 23,912,784	\$ 26,195,129
Net Decrease in Revenue from recording Refund Taxes Payable	(20,000)	
Recognition of intergovernmental Revenue - "on behalf payments"	1,838,043	
Recognition of Expenditures - "on behalf payments"		1,838,043
Capital Leases		74,878
Net Increase in Expenditures - Accrued Expenses		8,792
Net Increase in Revenue from Recording 60-Day Receipts	6,275	
Reported on a GAAP Basis	<u>\$ 25,737,102</u>	<u>\$ 28,116,842</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF WARE, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 201,106
Investments	119,974	-
Total Assets	119,974	201,106
LIABILITIES		
Warrants Payable	-	540
Due to Student Groups	-	74,374
Escrows & Deposits	-	126,192
Total Liabilities	-	201,106
NET ASSETS:		
Held in Trust for Other Purposes	\$ 119,974	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF WARE, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Private Purpose Trust Funds</u>
Additions	
Investment Income:	
Interest & Dividends	<u>\$ 5,518</u>
Total Additions	<u>5,518</u>
Deductions:	
Educational Scholarships	<u>4,000</u>
Total Deductions	<u>4,000</u>
Change in Net Assets	<u>1,518</u>
Net Assets at Beginning of Year	<u>118,456</u>
Net Assets at End of Year	<u><u>\$ 119,974</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Ware, Massachusetts (the Town) was incorporated in 1775 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2007, it was determined that no entities met the required GASB-14 criteria for component units.

The Town is responsible for electing the governing board and/or committee members of the Ware Housing Authority, Pathfinder Regional Vocational Technical High School District and Quabbin Health District. These related organizations are excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing members of the board. Audited financial statements are available from the respective organizations. A description of the related organizations are as follows:

Ware Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income elderly, handicap and families. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The Town has no significant influence over management, budget or policies of the authority.

Pathfinder Regional Vocational Technical High School District - A regional school district made up of eight communities to serve and provide a learning environment in specific career areas. The regional school district is a separate entity under the Commonwealth of Massachusetts. The Town elects one district committee member for its representation. The District is responsible for both the operating and capital costs related to the school and operates independently from the Town.

Quabbin Health District - A regional health department made up of three communities to provide the communities with full time professional staff and public health services. The health district is a separate entity. The district is responsible for the operating costs related to the district and operates independently from the Town.

The accompanying basic financial statements of the Town of Ware, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

and financial reporting principles. The significant Town accounting policies are described herein.

B. Government-Wide and Fund Financial Statements

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

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

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

Fiduciary funds are reported by fund type.

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

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

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

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves, and planning and development's ongoing and future operations.

Additionally, the government reports the following fund types:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

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

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

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

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

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

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

E. Investments

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

All investments are carried at fair value.

F. Receivables

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

Property Taxes, Tax Liens and Tax Possessions

Property taxes are based on assessments as of January 1, 2006 and include betterments, special assessments and liens. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The Town has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied. The Town mailed preliminary tax bills for the fiscal year 2007 on June 28, 2006, that were due on August 1, 2006 and November 1, 2006 and actual bills on December 28, 2006 that were due on February 1, 2007 and May 1, 2007.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town. The legal levy limit under Proposition 2 1/2 for fiscal year 2007 is \$10,048,430 consisting of a base of \$9,743,879 and a debt exclusion of \$304,551. The total amount raised by taxation was \$10,043,511.

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise, boat excise and farm animal excise taxes.

Motor vehicle and boat excise taxes are assessed annually for each vehicle and vessel registered in the Town and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the Town is responsible for determining the value of each vessel. The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

Farm animal excise taxes are assessed on farm animals and farm machinery. The Board of Assessors of the Town is responsible for determining the value of the property.

The allowance for uncollectibles is estimated and based on historical trends and specific account analysis.

User Charges

User charges and fees consist of sewer and water services and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed each year and included as a lien on the property owner's tax bill. Water and sewer charges are recorded as receivables in the fiscal year of the levy.

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

The allowance for uncollectibles is estimated and based on historical trends and specific account analysis.

Departmental

Departmental receivables consists of ambulance and police-off duty receipts.

The allowance for uncollectibles is estimated and based on historical trends and specific account analysis.

Loans

Loans consist of betterment agreements/loans for the repair, replacement and/or upgrade of a failed septic system that are to be repaid to the Town. The repayments vary from 5 to 10 years.

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

Due from Other Governments

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

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and renovations	20-40
Machinery, equipment and other	3-10
Infrastructure	20-50

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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

H. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities.

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

I. Deferred Revenue

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

J. Net Assets and Fund Equity

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" represents amounts restricted for by the federal and state government for various programs.

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

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

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

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balances

**TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2007

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balances

represent tentative management plans that are subject to change. Fund balances have been "reserved for" or "designated for" the following:

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

"Designated for subsequent years' expenditures" represents the amount of fund balance appropriated to be used for expenditures in the subsequent year's budget. The Town includes the following in the reserve:

General Fund:

Undesignated:

Free cash	\$ 53,150	
(Ambulance receipts)	<u>367,200</u>	\$ 420,350

Major Fund:

Stabilization fund		413,435
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Nonmajor Governmental Funds:

Park revolving	\$ 24,000	
State aid to library	<u>17,315</u>	<u>41,315</u>
		<u>\$ 875,100</u>

K. Long-term Debt

Long-term debt is reported as liabilities in the government-wide statement of net assets.

The face amount of governmental funds long-term debt is reported as other financing sources.

L. Compensated Absences

The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave which is (subject to certain limitations) at their current rates of pay.

M. Post Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50% share of insurance premiums for retirees, spouses and surviving spouses in the general fund in the fiscal year paid. For the fiscal year ending June 30, 2007, the expense/expenditure totaled approximately \$173,429. There were approximately 50 participants eligible to receive benefits at June 30, 2007.

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

The cost of providing health insurance is recognized by recording the employer's share of insurance premiums in the general fund in the fiscal year paid.

N. Use of Estimates

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for the acceptance of grants, capital projects, and borrowing authorizations, annual budgets are not prepared for any other fund; therefore, comparison of budget to actual is only presented for the General Fund.

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

The Town follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

Estimates are submitted by departments.

The budget is legally enacted by vote at the annual Town meeting.

Supplemental appropriations may be made from available funds after setting of the tax rate with Town meeting approval.

Throughout the year appropriations may be transferred between departments with Town meeting approval.

Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . ."

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

For fiscal year 2007, the Town incurred a final budget deficit of \$3,604,972 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unreserved Fund Balance:	
Free Cash Votes	\$ 2,492,843
Prior Year's Encumbrances	1,247,065
Reserved for Deficits	(134,936)
	<u>\$ 3,604,972</u>

3. DETAILED NOTES

A. Cash, Investments and Cash and Investments in Custody of Trustees

Custodial Credit Risks – Deposits – Town's Financials

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2007 were \$7,827,341. Of these, \$5,442,895 were exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies – Town Financials

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and notes proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

The Town has adopted an investment policy. Among the highlights are:

- The Town will diversify its investments by security type and institution. With the exception of U. S. Treasury securities or U. S. Government agency funds and the State Treasurer's investment pools, no more than 75% of the Town's total investment portfolio, excluding U. S. obligations and Government agency funds with a single financial institution.

TOWN OF WARE, MASSACHUSETTS
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- The Town will not have on deposit with a single financial institution more than 60% of the institution's total equity presented on the specific institution's annual audited financial statements.
- The Town will utilize the MMDT as an integral part of its overall investment strategy.
- The Town will utilize U. S. Treasury and Government agency securities for reasons of diversification and security. Treasury securities will be purchased either at auction or through the registered dealers. The definition of agency securities will include instrumentalities, but will be limited to discount notes and variable rate notes. Coupon securities may be purchased on the secondary market as long as the remaining maturity is less than one year.

As of June 30, 2007, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 to 5	6 to 10
Debt Securities:				
U. S. government agencies	\$ 544,411	\$ 194,530	\$ 233,288	\$ 116,593
Money market mutual fund	151,954	151,954	-	-
	<u>\$ 696,365</u>	<u>\$ 346,484</u>	<u>\$ 233,288</u>	<u>\$ 116,593</u>

Custodial Credit Risks

For an investment, custodial risk 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. Of the Town's \$696,365 in investments, \$44,410 are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Town's name. The Town's investment policy is to provide as much security as possible for the Town's bank investments through the prudent selection process. Additionally the Town will utilize the MMDT as a comparatively safe instrument as an integral part of its overall investment strategy.

Interest Rate Risk

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

Credit Risk

The Town's exposure to credit risk as of June 30, 2007 is as follows:

TOWN OF WARE, MASSACHUSETTS
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Related Debt Instruments	Fair Value	Moody's Quality Rating		Not Rated
		Aaa		
Debt Securities:				
U. S. government agencies	\$ 544,411	\$ 544,411	\$ -	
Money market mutual fund	151,954	-	151,954	
	<u>\$ 696,365</u>	<u>\$ 544,411</u>	<u>\$ 151,954</u>	

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in one issuer. More than 5 percent of the Town's investments are Federal Home Loan Mortgage Company, Federal Home Loan Bank and Federal National Mortgage Association amounting to 36.69%, 17.04% and 20.62%, respectively, of the Town's total investments.

Cash in custody of others are Small Cities grant funds that are in the custody of the Pioneer Valley Planning Commission.

B. Receivables

At June 30, 2007, receivables for the individual major governmental funds, non-major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and nonmajor governmental funds:			
Property taxes	\$ 264,834	\$ (34,639)	\$ 230,195
Tax liens	167,658	-	167,658
Tax possessions	375,939	-	375,939
Excise taxes	161,217	(19,900)	141,317
User charges	47,442	(2,000)	45,442
Departmental	184,133	(33,196)	150,937
Loans	4,110	-	4,110
Due from other governments	11,204,317	-	11,204,317
	<u>\$ 12,409,650</u>	<u>\$ (89,735)</u>	<u>\$ 12,319,915</u>

The composition of amounts due from other governments as of June 30, 2007 for governmental funds is as follows:

TOWN OF WARE, MASSACHUSETTS
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General Fund:

Commonwealth of Massachusetts:

School Building Authority		\$ 9,377,285
School Building Assistance - Capital Portion		

Nonmajor Governmental Funds:

U. S. Department of Agriculture

School Lunch	15,690	
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U. S. Department of Education

School Title Grants	490,005	
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Commonwealth of Massachusetts:

Department of Education:

School Lunch	490	
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Early Childhood Chapter 188

(Hampshire Education Collaborative)	29,904	
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Department of Veterans Services:

Veterans Memorial Park	25,000	
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Massachusetts Highway Department:

PWED	917,015	
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Chapter 90 funded projects	248,928	
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Pioneer Valley Planning Commission;

Brownfield Loan Program	100,000	1,827,032
		\$ 11,204,317

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

The balance of the general fund deferred revenues account is equal to all of June 30, 2007 receivable balances, except real estate and personal property taxes that are accrued for subsequent 60 day collections. At the end of the current fiscal year, the deferred revenue for property taxes is \$167,695.

The various components of the other deferred revenue reported in the governmental funds were as follows:

General Fund:

Tax liens and tax possessions	\$ 543,597		
Excise taxes	141,317		
User charges	45,442		
Departmental	103,933		
Due from other governments	9,377,285	\$ 10,211,574	

Nonmajor Governmental Funds:

Loans	4,110		
Due from other governments	92,730	96,840	
		\$ 10,308,414	

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

C. Capital Assets

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,700,401	\$ 150,000	\$ -	\$ 2,850,401
Construction in progress	-	1,627,139	-	1,627,139
Total capital assets not being depreciated	2,700,401	1,777,139	-	4,477,540
Capital assets being depreciated:				
Buildings and Renovations	21,776,797	334,000	-	22,110,797
Machinery, equipment and other	3,219,369	1,156,946	(175,912)	4,200,403
Infrastructure	6,721,090	-	-	6,721,090
Total capital assets being depreciated	31,717,256	1,490,946	(175,912)	33,032,290
Less accumulated depreciation for:				
Buildings and Renovations	6,146,121	864,307	-	7,010,428
Machinery, equipment and other	1,996,950	239,699	(175,912)	2,060,737
Infrastructure	958,255	166,702	-	1,124,957
Total accumulated depreciation	9,101,326	1,270,708	(175,912)	10,196,122
Total capital assets being depreciated, net	22,615,930	220,238	-	22,836,168
Total governmental activities capital assets, net	\$ 25,316,331	\$ 1,997,377	\$ -	\$ 27,313,708

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

Governmental Activities:

General government	\$ 22,975
Public safety	134,440
Public works	221,681
Education	820,355
Health and Human Services	48,497
Culture and recreation	22,760
Total depreciation expense - governmental activities	<u>\$ 1,270,708</u>

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2007, are summarized as follows:

Transfers Out:	Transfers In:		
	General fund	Stabilization fund	Total
General fund	\$ -	\$ 453,539	\$ 453,539
Stabilization fund	28,000	-	28,000
Nonmajor governmental funds	1,909,118	-	1,909,118
Total transfers out	<u>\$ 1,937,118</u>	<u>\$ 453,539</u>	<u>\$ 2,390,657</u>

E. Leases

The Town has entered into lease agreements as lessee for financing the acquisition of a school boiler, a police cruiser, a loader/backhoe, a dump truck, a sander dump truck, a fire administration vehicle, a truck for the park and recreation department and a truck and a pick up truck for the public works department. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	Governmental Activities
Asset:	
Machinery, Equipment and Other	\$ 667,114
Less: Accumulated Depreciation	(184,453)
Total	<u>\$ 482,661</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, are as follows:

Year Ending June 30,	Governmental Activities
2008	\$ 112,809
2009	112,809
2010	53,885
2011	15,820
Total minimum lease payments	<u>\$ 295,323</u>
Less: amount representing interest	(29,637)
Present value of minimum lease payments	<u>\$ 265,686</u>

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

F. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type fund are as follows:

Purpose	Interest Rate	Maturity Date	Balance June 30, 2006	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2007
State Anticipation Notes:						
Chapter 90, highway	3.85%	12/20/06	\$ 269,511	\$ -	\$ 269,511	\$ -
Chapter 90 highway	3.84%	09/21/07	-	248,928	-	248,928
Bond Anticipation Notes:						
Fire Department Ladder Truck	3.85%	03/30/07	\$ 750,000	\$ -	\$ 750,000	\$ -
Fire Department Truck	3.70%	03/28/08	-	750,000	-	750,000
Senior Center	3.70%	03/28/08	-	852,000	-	852,000
Corrosion Control	3.84%	03/28/08	-	831,000	-	831,000
Equipment	3.84%	03/28/08	-	230,000	-	230,000
PWED	3.85%	12/26/07	-	998,414	-	998,414
			<u>\$ 1,019,511</u>	<u>\$ 3,910,342</u>	<u>\$ 1,019,511</u>	<u>\$ 3,910,342</u>

G. Long Term Debt

General Obligation Bonds

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

General obligation bonds currently outstanding of the governmental type fund are as follows:

TOWN OF WARE, MASSACHUSETTS
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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2007
Inside Debt:					
Police Station	4.75%	09/08/00	09/08/19	500,000	\$ 325,000
Fire Department Equipment	4.82%	09/01/99	09/01/11	205,000	75,000
Land Acquisition	4.89%	09/01/99	09/01/14	110,000	40,000
Building Remodeling - Fire Station	3.56%	04/15/05	04/15/11	79,600	49,100
Building Remodeling - Court House	3.56%	04/15/05	04/15/11	120,000	75,000
Road and Drainage Repairs	3.56%	04/15/05	04/15/11	232,750	77,000
Road and Water Line Repairs	3.56%	04/15/05	04/15/11	166,500	101,500
Dam Repairs	3.56%	04/15/05	04/15/11	47,450	30,800
DPW Equipment	3.56%	04/15/05	04/15/11	93,700	61,600
DPW Equipment	2.85%	11/05/03	11/05/08	115,007	46,000
Sewer Lines	4.95%	12/15/05	12/15/06	68,000	54,000
PVPC-Brownfield Clean up	2.00%	07/01/06	07/01/14	120,000	120,000
Massachusetts Water Pollution Abatement Trust -					
Landfill Capping	N/A	12/09/98	08/01/18	906,800	588,000
Total Inside Debt					<u>1,643,000</u>
Outside Debt:					
School Building	4.74%	12/15/98	12/15/18	186,550,000	2,805,000
School Building Refunding	3.77%	12/15/05	09/01/18	8,640,000	8,605,000
Landfill Area	4.2 - 6.0%	09/01/99	09/01/09	49,600	15,000
Water	4.2 - 6.0%	09/01/99	09/01/16	1,184,400	580,000
Total Outside Debt					<u>12,005,000</u>
Total governmental type debt					<u>\$ 13,648,000</u>

Future Debt Service

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

Governmental	Principal	Interest	Total
2008	\$ 1,361,000	\$ 553,765	\$ 1,914,765
2009	1,273,242	495,669	1,768,911
2010	1,251,664	439,953	1,691,617
2011	1,251,394	388,246	1,639,640
2012	1,161,229	333,256	1,494,485
2013-2017	5,337,971	84,019	5,421,990
2018-2021	2,011,500	80,596	2,092,096
	<u>\$ 13,648,000</u>	<u>\$ 2,375,504</u>	<u>\$ 16,023,504</u>

A summary of the changes in governmental activities long term debt during the year is as follows:

**TOWN OF WARE, MASSACHUSETTS
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	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due within One Year
Governmental activities:					
<i>Bond Payable:</i>					
General obligation bonds	\$ 14,267,000	\$ 120,000	\$ 1,327,000	\$ 13,060,000	\$ 1,317,000
<i>Massachusetts Water Pollution Abatement Trust</i>	630,700	-	42,700	588,000	44,000
<i>Leases Payable</i>	294,214	74,878	103,406	265,686	98,111
<i>Compensated absences</i>	300,149	235,331	-	535,480	105,855
Governmental activity					
Long-term liabilities	\$ 15,492,063	\$ 430,209	\$ 1,473,106	\$ 14,449,166	\$ 1,564,966

Massachusetts Water Pollution Abatement Trust (MWPAT)

The Town has borrowed funds from the MWPAT Bond Resolution (Pool Loan Program). Under this program the borrower shall receive, as a credit against the loan repayment then due on this bond, the loan subsidy amounts (earnings on the equity of the trust).

The Town has borrowed moneys from the Water Pollution Abatement Project Bond Resolution (Pool Loan Program). Under this program the borrower shall receive, as a credit against the loan repayment then due on this bond, the loan subsidy amounts (earnings on the equity of the trust).

The Town currently has one loan as follows:

- a gross obligation of \$1,398,983 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$572,419 resulting in a net loan repayment of \$826,564.

The following is a summary of the activity of the Water Pollution Abatement Project Bond Resolution:

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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No. 98-02

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan					
Obligation	\$ 906,800	\$ 492,183	\$ 1,398,983	\$ 572,419	\$ 826,564
Restructuring	-	(13,771)	(13,771)	(6,886)	(6,885)
Repayments:					
Fiscal Year 2000	37,200	46,783	83,983	48,356	35,627
Fiscal Year 2001	38,000	39,181	77,181	36,420	40,761
Fiscal Year 2002	38,700	37,599	76,299	35,543	40,756
Fiscal Year 2003	39,400	36,037	75,437	34,649	40,788
Fiscal Year 2004	40,200	34,445	74,645	33,739	40,906
Fiscal Year 2005	40,900	31,616	72,516	32,207	40,309
Fiscal Year 2006	41,700	30,391	72,091	31,476	40,615
Fiscal Year 2007	42,700	29,267	71,967	30,899	41,068
	<u>\$ 588,000</u>	<u>\$ 193,093</u>	<u>\$ 781,093</u>	<u>\$ 282,244</u>	<u>\$ 498,849</u>

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws a Town may authorize indebtedness up to a limit of five percent of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2007 totaled \$1,643,000.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2007

Equalized Valuation-Real Estate and Personal Property (2006)		<u>\$ 750,424,300</u>
Debt Limit: 5 % of Equalized value		<u>\$ 37,521,215</u>
Total Debt Outstanding	\$ 13,648,000	
Less: Debt Outside Debt Limit	<u>(12,005,000)</u>	<u>1,643,000</u>
Inside Debt Excess Borrowing Capacity at June 30, 2007		<u>\$ 35,878,215</u>

**TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007**

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt.

Loan authorizations that have not been issued as of June 30, 2007 and are not reflected in the Town's financial statements are as follows:

Town Meeting Authorized	Purpose	Amount
12/15/05	Purchase a ladder/tower truck	\$ 750,000
12/15/05	Purchase and renovation of the former IGA property for use as a senior center	852,000
12/15/05	Road repairs and water/sewer lines to portions of South and Maple Street and Knox Avenue	1,300,000
12/15/05	Construction of a Chlorination and Corrosion Control Facility at the Barnes Street Pumping Station	831,000
11/27/06	Department of Public works equipment - bucket truck and wheel loader	230,000
05/14/07	Renovation, reconstruction or improvement of Veteran's park	185,000
06/25/07	Design, engineering, demolition, disposal and replacement of the existing town boilers and heating systems	87,000
		<u>\$ 4,235,000</u>

Overlapping Debt

The Town pays assessments which includes debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long term debt of the governmental unit, the estimated share of such debt being serviced by the Town and the total of its share of estimated indirect debt.

	Long Term Debt	Town's Estimated Share	Town's Estimated Indirect Debt
Pathfinder Regional Vocational Technical High School District:	<u>\$ 400,000</u>	16.07%	<u>\$ 64,280</u>

**TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007**

H. Special Trust Funds

Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a Town at a Town meeting for any lawful purpose.

At June 30, 2007, \$1,026,803 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements.

4. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Town Meeting – Fiscal Year 2008

The Town of Ware operates under the "Open Meeting" concept where each voter has an equal vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2007 do not reflect the fiscal year 2008 Town Meeting action, with the exception of Unreserved Fund Balance-Designated for Subsequent Years' Expenditures as disclosed below. The Annual Town Meeting on May 14, 2007 and June 25, 2007 authorized a fiscal year 2008 operating and capital budget as follows:

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

From the tax levy		\$ 23,107,789
From other available funds:		
General Fund:		
Unreserved fund balance		
(Free Cash)	\$ 53,150	
(Ambulance)	367,200	420,350
Major Fund:		
Stabilization fund		413,435
Nonmajor Governmental Funds:		
Park revolving	\$ 24,000	
State aid to library	17,315	41,315
		\$ 23,982,889

C. Contingent Liabilities

Litigation

Various cases are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2007, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2007.

Federal Financial Assistance

The Town receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the Town.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the Town.

D. Pension Plan

Plan Description

The Town, as a member of the Hampshire County Retirement System (the System), participates in a cost-sharing multiple-employer defined benefit pension plan administered by the Hampshire County Retirement Board. Each participating employers' share of the total annual contribution is determined on the basis of active payroll. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of the Commonwealth of Massachusetts Teachers' Retirement System to which the Town does not contribute. Pension benefits and administrative expenses are paid by the Teachers' Retirement Board and are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$1,807,144 for the fiscal year ending June 30, 2007, and, accordingly, are

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

reported in the General Fund as intergovernmental revenues and employee benefit expenditures.

The Town has approximately 198 employees in the retirement system.

The System and the teachers' retirement system provide retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Hampshire County Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 99 Industrial Drive, Northampton, Massachusetts.

Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32B of the Massachusetts general laws governs the contributions of plan members and the Town.

The Town's contribution to the System for the fiscal years ended June 30, 2007, 2006 and 2005 is shown below, which equaled its required contribution for each fiscal year.

Fiscal Year Ended June 30	Town's Contribution
2007	\$ 937,231
2006	843,749
2005	754,320

The last actuarial valuation was prepared by the Segal Company as of January 1, 2006. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8% compounded annually, (b) projected salary, including longevity, increases of 4.75% to 5.25% per year per member, (c) cost of living increase of 3% of the first \$12,000 of retirement income.

The unfunded actuarial liability for the entire county is \$104,915,906. The Town's portion of such liability is approximately 7.89% or \$8,277,865.

TOWN OF WARE, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

Reporting Policies

The funds of the Hampshire County Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

SUPPLEMENTARY SCHEDULES

TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Fund Balances July 1, 2006	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2007
Special Revenue:					
Federal and State Grants:					
School Grants	\$ 389,163	\$ 1,507,284	\$ 1,617,211	\$ -	\$ 279,236
Arts Lottery Council Grant	2,696	4,857	5,869	-	1,684
Board of Health Emergency Preparedness Grant	1,405	420	408	-	1,417
Community Development Block Grants	411,297	1,129,577	1,144,159	-	396,715
Community Forest Grants	-	1,634	1,634	-	-
Council on Aging Grants	183	15,965	17,386	-	(1,238)
Greenways Trails Grant	(5,711)	-	-	-	(5,711)
Highway Grants	-	299,104	299,104	-	-
Library Grants	16,162	17,315	16,162	-	17,315
Public Safety Grants	59,558	68,890	86,378	-	42,070
Schools:					
School Lunch Revolving	45,572	484,514	486,409	-	43,677
School Lunch Commodities	-	28,644	28,644	-	-
School Choice	336,273	236,343	-	(368,321)	204,295
School Revolving Accounts	110,905	81,096	122,148	-	69,853
Medicaid Revolving Accounts	420,989	63,913	29,214	(420,989)	34,699
State Special Education Reimbursement Fund	81,942	265,918	-	(73,460)	274,400
Other:					
Ambulance Fund	622,360	420,988	-	(1,043,348)	-
Drug Forfeiture	622	1,339	1,020	-	941
Gifts and Donations	42,254	170,183	49,257	-	163,180
Insurance Reimbursements	1,216	18,235	-	-	19,451
Police Outside Duty	-	128,698	128,698	-	-
Recreation Revolving	8,685	22,713	3,421	-	27,977
Sale of Cemetery Lots	4,910	649	4,081	-	1,478
School Rail Fund	2,685	27	-	-	2,712
Septic Repair Loan Repayments	32,587	1,874	-	-	34,461
SPC Fines, Chapter 304	-	200	-	-	200
Water/Sewer Development	25,631	257	-	-	25,888
Gilbert; Grandville Park Fund	9,991	13,344	8,213	-	15,122
Reed Swimming Pool Fund	53,138	9,959	-	-	63,097
Total Special Revenue Funds	\$ 2,674,513	\$ 4,993,940	\$ 4,049,416	\$ (1,906,118)	\$ 1,712,919

Total Special Revenue Funds Page 44

TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Fund Balances July 1, 2006	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2007
Capital Projects:					
Brownfields Project	\$ -	\$ 30,000	\$ 9,613	\$ 120,000	\$ 140,387
Chlorination/Construction Facility	-	-	489,476	-	(489,476)
Dechlorination Project	1,339	-	-	-	1,339
Department of Public Works Equipment	-	-	230,000	-	(230,000)
Fire Department Ladder Truck Purchase	-	-	750,000	-	(750,000)
Fire Station Roof and Windows	40,694	-	-	-	40,694
Goldstein Property	998	-	-	-	998
Landfill Closure	4,673	-	-	(3,000)	1,673
Palmer Road/Beaver Lake Project	5,826	-	-	-	5,826
Public Works Economic Development Grant	-	917,015	917,015	-	-
Senior Center Acquisitions and Improvement	(184)	-	538,300	-	(538,484)
Senior Center Project	9,219	-	-	-	9,219
Snows Pond Dam Construction	13,310	-	-	-	13,310
South Street Roof Construction	22,130	-	-	-	22,130
South Street Water Replacement	380	-	-	-	380
Streetlight Project	5,998	-	2,665	-	3,333
Underground Storage Tank Removal School	5,806	-	-	-	5,806
Veterans Park Restoration	90,000	25,000	35,855	-	79,145
Total Capital Projects	200,189	972,015	2,972,924	117,000	(1,683,720)
Perpetual Permanent Funds:					
Cemetery Perpetual Care Funds:					
Aspen Grove Fund	113,602	1,175	-	-	114,777
George L. Draper Fund	10,000	-	-	-	10,000
Susan Connell Fund	4,000	-	-	-	4,000
Josephine Wood Fund	4,101	-	-	-	4,101
Mary Packard Fund	2,000	-	-	-	2,000
Donald Sherman Fund	500	-	-	-	500
Total Perpetual Permanent Funds	\$ 134,203	\$ 1,175	\$ -	\$ -	\$ 135,378

TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Fund Balances July 1, 2006	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2007
Permanent Funds:					
Cemetery Perpetual Care Funds:					
Aspen Grove Fund	\$ 3,896	\$ 7,380	\$ 6,664	\$ -	4,612
George L. Draper Fund	19	66	-	-	85
Susan Connell Fund	267	28	-	-	295
Helen Handanian Fund	422	335	-	-	757
Reed Memorial Fund	5,161	5,300	4,678	-	5,783
Josephine Wood Fund	599	223	-	-	822
Mary Packard Fund	1,917	186	432	-	1,671
Donald Sherman Fund	924	68	-	-	992
Total Permanent Funds	13,205	13,586	11,774	-	15,017
Total - Non-Major Governmental Funds	\$ 3,022,110	\$ 5,980,716	\$ 7,034,114	\$ (1,789,118)	\$ 179,594

**TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF REAL ESTATE, PERSONAL PROPERTY, ROLLBACK
AND SUPPLEMENTAL TAXES
JULY 1, 2006 TO JUNE 30, 2007**

	Uncollected Taxes July 1, 2006	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2007	Uncollected Taxes Per Detail June 30, 2007
Real Estate Taxes:						
Levy of 2007	\$ -	\$ 9,770,707	\$ 119,387	\$ 9,432,124	\$ 219,196	\$ 219,471
Levy of 2006	242,787	-	60,142	182,645	-	-
	<u>242,787</u>	<u>9,770,707</u>	<u>179,529</u>	<u>9,614,769</u>	<u>219,196</u>	<u>219,471</u>
Personal Property Taxes:						
Levy of 2007	-	271,212	-	269,873	1,339	1,339
Levy of 2006	845	-	-	655	190	190
Levy of 2005	297	-	-	114	183	183
Levy of 2004	303	-	-	-	303	303
Levy of 2003	465	-	-	-	465	465
Prior Years	37,448	-	-	-	37,448	37,448
	<u>39,358</u>	<u>271,212</u>	<u>-</u>	<u>270,642</u>	<u>39,928</u>	<u>39,928</u>
Rollback Taxes	1,009	2,929	(56)	3,994	-	-
Supplemental Taxes	4,888	12,232	-	11,410	5,710	5,710
Total Real Estate, Personal Property, Rollback and Supplemental Taxes	<u>\$ 288,042</u>	<u>\$ 10,057,080</u>	<u>\$ 179,473</u>	<u>\$ 9,900,815</u>	<u>\$ 264,834</u>	<u>\$ 265,109</u>

TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF MOTOR VEHICLE EXCISE, FARM ANIMAL EXCISE,
BOAT EXCISE AND FOREST PRODUCTS TAXES
JULY 1, 2006 TO JUNE 30, 2007

	Uncollected Taxes July 1, 2006	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Taxes June 30, 2007	Uncollected Taxes Per Detail June 30, 2007
Motor Vehicle Excise Taxes:						
Levy of 2007	\$ -	\$ 808,095	\$ 21,350	\$ 709,979	\$ 76,766	\$ 76,824
Levy of 2006	78,460	94,625	11,863	133,708	27,514	27,514
Levy of 2005	29,576	79	1,173	12,921	15,561	15,561
Levy of 2004	14,963	39	439	3,316	11,247	11,247
Levy of 2003	8,420	-	-	1,223	7,197	7,197
Prior Years	22,554	164	(314)	1,693	21,339	21,339
	<u>153,973</u>	<u>903,002</u>	<u>34,511</u>	<u>862,840</u>	<u>159,624</u>	<u>159,682</u>
Farm Animal Excise Taxes	<u>2,596</u>	<u>1,812</u>	<u>1,284</u>	<u>1,631</u>	<u>1,493</u>	<u>1,493</u>
Boat Excise Taxes	<u>483</u>	<u>2,126</u>	<u>749</u>	<u>1,760</u>	<u>100</u>	<u>100</u>
Forest Products Taxes	<u>-</u>	<u>3,235</u>	<u>-</u>	<u>3,235</u>	<u>-</u>	<u>-</u>
Total Motor Vehicle Excise, Farm Animal Excise, Boat Excise and Forest Products Taxes	<u>\$ 157,052</u>	<u>\$ 910,175</u>	<u>\$ 36,544</u>	<u>\$ 869,466</u>	<u>\$ 161,217</u>	<u>\$ 161,275</u>

TOWN OF WARE, MASSACHUSETTS
SCHEDULE OF TAX LIENS
JULY 1, 2006 TO JUNE 30, 2007

	Uncollected Accounts July 1, 2006	Commitments	Abatements and Adjustments	Collections Net of Refunds and Overpayments	Uncollected Accounts June 30, 2007	Uncollected Accounts Per Detail June 30, 2007
Tax Liens	\$ 157,265	\$ 121,166	\$ 15,346	\$ 95,427	\$ 167,658	\$ 177,999