

TOWN OF BELMONT, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2006

TOWN OF BELMONT, MASSACHUSETTS

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JUNE 30, 2006

TABLE OF CONTENTS

| | |
|---|----|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2 |
| Basic Financial Statements..... | 12 |
| Statement of Net Assets..... | 13 |
| Statement of Activities..... | 14 |
| Governmental funds – balance sheet | 16 |
| Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets..... | 17 |
| Governmental funds – statement of revenues, expenditures and changes in fund balances | 18 |
| Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities..... | 19 |
| Proprietary funds – statement of net assets..... | 20 |
| Proprietary funds – statement of revenues, expenses and changes in fund net assets | 21 |
| Proprietary funds – statement of cash flows | 22 |
| Fiduciary funds – statement of fiduciary net assets | 23 |
| Fiduciary funds – statement of changes in fiduciary net assets..... | 24 |
| Notes to basic financial statements..... | 25 |
| Required Supplementary Information | 51 |
| Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual | 52 |
| Notes to required supplementary information | 54 |

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Belmont, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Belmont, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Belmont Contributory Retirement System and Municipal Light Enterprise which are as of December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Belmont, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Belmont Municipal Light Department, a major enterprise fund, which represent 38.6% and 53.5%, respectively, of the assets and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Belmont Municipal Light Department, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Belmont, Massachusetts, as of June 30, 2006 (except for the Belmont Contributory Retirement System and Municipal Light Enterprise which are as of December 31, 2005) and the respective changes in financial position and cash flows, where applicable, thereof 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 October 27, 2006, on our consideration of the Town of Belmont, 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.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 27, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Belmont, we offer readers of Town's basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006.

The Town provides general government services for the territory within its boundaries, including police and fire protection, public education, water and sewer maintenance, trash disposal, electricity transmission and parks and recreational facilities.

Financial Highlights

- The Town's assets exceeded its liabilities at the close of fiscal 2006 by \$117.3 million.
- The Town's total net assets increased by \$15.4 million.
- At the end of fiscal 2006, undesignated fund balance for the general fund was \$10.2 million or 14.2% of total general fund expenditures.
- The Town's total debt increased by \$1.9 million during fiscal 2006.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the Town'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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick and vacation time).

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

The government-wide financial statements include not only the Town of Belmont itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Belmont is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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 of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Town Annex Renovation Fund, the Fire Station Construction Fund, the Reserve for Appropriation Fund, and the Other Capital Projects Fund which are the Town's major governmental funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

The Town of Belmont adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided as Required Supplementary Information for the general fund to demonstrate compliance with this budget.

Proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer systems and electricity transmission activities.

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

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 statement because the resources of those funds are *not* available to support the Town's own programs.

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: a pension trust fund and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Town's agency fund accounts for primarily police and off-duty fire details.

The Town is the trustee, or fiduciary, for its employees' pension plan. The Town's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

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.

Government-wide Financial Analysis

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As noted below, assets exceeded liabilities by approximately \$88.7 million at the close of the most recent fiscal year.

| | FY2006 | FY2005 |
|--|----------------------|----------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| Assets: | | |
| Current assets..... | \$ 36,320,866 | \$ 30,349,305 |
| Noncurrent assets (excluding capital)..... | 5,112,211 | 5,857,613 |
| Capital assets..... | 95,268,149 | 84,768,569 |
| Total assets..... | 136,701,226 | 120,975,487 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 5,810,326 | 3,408,323 |
| Noncurrent liabilities (excluding debt)..... | 5,103,005 | 5,028,247 |
| Current debt..... | 5,318,170 | 3,423,170 |
| Noncurrent debt..... | 31,811,136 | 31,634,306 |
| Total liabilities..... | 48,042,637 | 43,494,046 |
| Net Assets: | | |
| Capital assets net of related debt..... | 66,491,898 | 66,595,375 |
| Restricted..... | 2,163,242 | 1,670,937 |
| Unrestricted..... | 20,003,449 | 9,215,129 |
| Total net assets..... | \$ 88,658,589 | \$ 77,481,441 |

A significant portion of the Town's net assets, \$66.5 million (75%), 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 Town's 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 Town's net assets, \$2.2 million (2.4%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$20 million (22.6%), 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 of net assets for its governmental type activities.

The governmental activities net assets increased by \$11.1 million during the current fiscal year. This is due primarily to the return of deposits previously held by NESWC (\$3.8 million), and the purchase of capital assets using current year resources other than debt (\$3.3 million). Also contributing was the timing of expenditures for educational grant revenues of \$3.1 million, and an increase in charges for services of \$2 million.

Key elements of change in net assets are as follows:

| | FY2006 Governmental Activities | FY2005 Governmental Activities |
|--|---|---|
| Program revenues: | | |
| Charges for services..... | \$ 6,109,576 | \$ 4,064,703 |
| Operating grants and contributions..... | 13,661,690 | 12,311,945 |
| Capital grants and contributions..... | 130,095 | 7,551,363 |
| General Revenues: | | |
| Real estate and personal property taxes..... | 55,069,004 | 52,985,458 |
| Motor vehicle and other excise taxes..... | 2,916,700 | 2,322,257 |
| Nonrestricted grants..... | 6,643,029 | 2,750,273 |
| Penalties and interest on taxes..... | 420,602 | 174,299 |
| Unrestricted investment income..... | 1,197,023 | 648,121 |
| Gain/(loss) on sale of capital assets..... | 603,508 | - |
| Donation of fixed assets..... | - | 13,630,000 |
| Total revenues..... | 86,751,227 | 96,438,419 |
| Expenses: | | |
| General government..... | 3,478,830 | 3,042,038 |
| Public safety..... | 13,543,576 | 11,786,568 |
| Education..... | 45,333,721 | 43,138,109 |
| Public works..... | 7,316,421 | 8,578,635 |
| Human services..... | 1,003,050 | 921,754 |
| Culture and recreation..... | 2,650,357 | 2,667,704 |
| Interest..... | 1,486,300 | 1,536,861 |
| State and county charges..... | 1,426,649 | 1,439,559 |
| Total expenses..... | 76,238,904 | 73,111,228 |
| Transfers..... | 664,825 | 700,764 |
| Change in net assets..... | \$ 11,177,148 | \$ 24,027,955 |

The Town budgets according to state regulations all capital projects in total from current-year appropriations or bond authorizations. The Town of Belmont funds over \$2 million a year from current-year appropriations for capital projects.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2 % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2% taxing limitations can be overridden by Town-wide referendum vote. The Town has taken advantage of this override capability to increase operating budgets and so-called "debt exclusions" that are not subject to the Proposition 2-1/2% limitations.

The Town collects 99.2% of its property tax billings in the year billed. Property taxes increased \$1.8M in fiscal 2006. \$1.25M of this increase was the allowable increase under Proposition 2 ½. \$687,000 of this increase is the product of the certified new growth of the Town. There was a decrease in the debt exclusion in fiscal 2006 of \$100,000 and \$67,000 of unused tax capacity from 2005.

Business-type activities

Business-type activities increased the Town's net assets by \$4.3 million in the current fiscal year. Most of this is attributable to a rate structure designed to recover costs as well as the capitalization of fixed assets exceeding depreciation by \$1.5 million.

The following table identifies key elements of the enterprise operations:

| | FY06 Business-type Activities | FY05 Business-type Activities |
|---|-------------------------------------|-------------------------------------|
| Assets: | | |
| Current assets..... | \$ 14,288,323 | \$ 12,259,220 |
| Capital assets..... | 17,298,056 | 15,830,490 |
| Total assets..... | <u>31,586,379</u> | <u>28,089,710</u> |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 1,015,623 | 1,004,772 |
| Noncurrent liabilities (excluding debt).... | 526,766 | 1,121,319 |
| Current debt..... | 278,750 | 265,000 |
| Noncurrent debt..... | 1,110,000 | 1,320,000 |
| Total liabilities..... | <u>2,931,139</u> | <u>3,711,091</u> |
| Net Assets: | | |
| Capital assets net of related debt..... | 15,909,306 | 14,245,490 |
| Restricted..... | 1,416,000 | 1,216,000 |
| Unrestricted..... | 11,329,934 | 8,917,129 |
| Total net assets..... | <u>28,655,240</u> | <u>24,378,619</u> |
| Program revenues: | | |
| Charges for services..... | 24,106,816 | 23,993,379 |
| Operating grants and contributions..... | 56,250 | - |
| General Revenues: | | |
| Unrestricted investment income..... | 166,133 | 63,087 |
| Total revenues..... | <u>24,329,199</u> | <u>24,056,466</u> |
| Expenses: | | |
| Water..... | 3,210,027 | 3,037,040 |
| Sewer..... | 4,497,580 | 4,607,476 |
| Light..... | 11,680,146 | 11,375,487 |
| Total expenses..... | <u>19,387,753</u> | <u>19,020,003</u> |
| Transfers..... | (664,825) | (700,764) |
| Change in net assets..... | \$ <u>4,276,621</u> | \$ <u>4,335,699</u> |

Financial Analysis of the Town's Governmental Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$25.5 million. Of this amount \$12.1 million relates to the general fund, \$109 thousand relates to the Town Annex Renovation project, \$7.5 million relates to receipts reserved for appropriation, \$2.2 million relates to other Town capital projects, and \$3.6 million for nonmajor governmental funds. Overall fund balance increased by \$1.9 million in fiscal 2006. This was due to strong overall collections that increased at a greater percentage than expenditures, bonding of \$2.9 million of capital projects and \$603 thousand related to the sale of capital assets.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$10.2 million, while total fund balance was \$12.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14.2% of total general fund expenditures, while total fund balance represents 16.8% of that same amount. During fiscal year 2006, the fund balance of the general fund increased by approximately \$3.5 million as compared to decrease of \$12 thousand in fiscal year 2005. This result is the product of strong collections and continued strong controls over departmental budget increases.

The Town Annex Renovation Fund is the capital fund established for the renovation and restoration of the Town Hall Annex and the School Administrative offices. These are historically significant buildings in Belmont dating back to the late 1800's when they had been built as a school and the original town library. These restoration/renovations are being funded by a bond issuance of \$12 million that has been voted as a debt exclusion outside of the Proposition 2-1/2% limit in Massachusetts. As of June 30, 2006, the project is substantially complete. At June 30, 2006, \$109 thousand of the bond issue remains unspent.

The Fire Station Construction Fund is the capital fund established for the building of two new fire stations to replace or consolidate the existing three stations originally constructed in 1873, 1899 and 1928. These stations were designed when the fire protection was different than it is today. They were constructed during the times of horse drawn equipment and the infancy of motorized vehicles. It was recognized for a long time that the current stations had surpassed their usefulness and lacked the modern facilities required for 21st century fire department operations. The Town is consolidating from three stations to two. The new stations have approximately 40,000 square feet of space with eight apparatus bays. The new stations are constructed for modern fire apparatus, all of the required building code upgrades and disability accessibility requirements. The Town funded the remaining \$2.6 million of the \$13 million authorization in 2006. At June 30, 2006, this project is substantially complete.

Financial Analysis of Proprietary Funds

The Water, Sewer and Light activities funds maintained positive results of operations and demonstrated the ability to recover all costs from rates.

The net assets of the water, sewer and electric light fund increased \$4.3 million in fiscal 2006. The increase is primarily the result of revenues generated for capital items (fixed assets and debt) outpacing depreciation expense and a cost structure designed to recover operating costs.

General Fund Budgetary Highlights

The \$3.7 million increase between the original budget and the final amended budget was mainly due to a voted transfer between the General Fund and a Special Revenue Fund established for the purpose of closing the landfill. Of the \$2.5 million in under budget expenditures \$400 thousand has been carried over to FY07.

Capital Asset and Debt Administration

Capital Asset Administration

In conjunction with the operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIF) that is used as a guide for future capital expenditures.

Debt Administration

Outstanding governmental long-term debt, as of June 30, 2006, totaled \$34.6 million of which \$9.8 million relates to various School construction projects, \$10.1 relates to the Town Hall renovation project and \$11 million relates to the Fire Station construction, leaving a balance of \$3.7 million for other CIP projects.

The enterprise funds have \$520 thousand in water debt, \$68.7 thousand in sewer debt and \$800 thousand in light debt that is fully supported by the rates.

The Town has a "AAA" rating from Moody's for general obligation debt.

Please refer to the notes for further discussion of the major capital and debt activity.

Economic Factors and Next Year's Budget

The Town continues to experience growth in residential renovation and development. In fiscal year 2006, 776 building permits were issued, resulting in \$43 million in value. This is increased over the 2005 levels, which generated 760 permits resulting in \$36.7 million in value. This activity has produced new growth tax revenue, which is exempt from the limitation imposed by Proposition 2 1/2. For fiscal year 2006, the Town realized \$687,000 in new taxes from this source.

The unemployment rate for Belmont for calendar 2005 was 3.2% compared to the state figure of 4.8% and the nationwide figure of 5.1%. Despite these economic conditions, Belmont's residents voted another debt exclusion over Proposition 2 1/2 tax levy limitation for a major capital project of \$6.3million for a new senior center. The Town collected 99.2% of all tax billings by year end.

Requests for Information

This financial report is designed to provide a general overview of the Town of Belmont'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 Finance Department, Town Hall, 455 Concord Ave., Belmont, MA 02478.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

| | <i>Primary Government</i> | | |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 28,978,684 | \$ 6,880,386 | \$ 35,859,070 |
| Restricted cash and cash equivalents..... | - | 1,072,053 | 1,072,053 |
| Investments..... | 4,152,412 | - | 4,152,412 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 177,712 | - | 177,712 |
| Real estate tax deferrals..... | 629,967 | - | 629,967 |
| Tax liens..... | 572,794 | 29,289 | 602,083 |
| Motor vehicle excise taxes..... | 187,171 | - | 187,171 |
| User fees..... | - | 5,665,355 | 5,665,355 |
| Departmental and other..... | 125,611 | - | 125,611 |
| Intergovernmental..... | 1,429,252 | - | 1,429,252 |
| Inventory..... | 49,818 | 462,400 | 512,218 |
| Other assets..... | - | 155,126 | 155,126 |
| Prepaid expenses..... | - | 23,714 | 23,714 |
| Unamortized bond issue costs..... | 17,445 | - | 17,445 |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | 4,916,647 | - | 4,916,647 |
| Unamortized bond issue costs..... | 195,564 | - | 195,564 |
| Capital assets, net of accumulated depreciation..... | 95,268,149 | 17,298,056 | 112,566,205 |
| TOTAL ASSETS..... | 136,701,226 | 31,586,379 | 168,287,605 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 2,135,160 | 989,952 | 3,125,112 |
| Accrued liabilities..... | 418,717 | 14,828 | 433,545 |
| Tax refunds payable..... | 122,000 | - | 122,000 |
| Accrued interest..... | 468,851 | - | 468,851 |
| Other liabilities..... | 2,591,000 | 183,381 | 2,774,381 |
| Customer deposits payable..... | - | 137,354 | 137,354 |
| Compensated absences..... | 54,259 | 10,843 | 65,102 |
| Unamortized premium on bonds payable..... | 20,339 | - | 20,339 |
| Bonds and notes payable..... | 5,318,170 | 278,750 | 5,596,920 |
| NONCURRENT: | | | |
| Landfill closure..... | 3,800,000 | - | 3,800,000 |
| Compensated absences..... | 1,030,927 | 206,031 | 1,236,958 |
| Unamortized premium on bonds payable..... | 272,078 | - | 272,078 |
| Bonds and notes payable..... | 31,811,136 | 1,110,000 | 32,921,136 |
| TOTAL LIABILITIES..... | 48,042,637 | 2,931,139 | 50,973,776 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 66,491,898 | 15,909,306 | 82,401,204 |
| Restricted for: | | | |
| Debt service..... | - | 1,416,000 | 1,416,000 |
| Expendable..... | 1,026,814 | - | 1,026,814 |
| Nonexpendable..... | 490,577 | - | 490,577 |
| Other purposes..... | 645,851 | - | 645,851 |
| Unrestricted..... | 20,003,449 | 11,329,934 | 31,333,383 |
| TOTAL NET ASSETS..... | \$ 88,658,589 | \$ 28,655,240 | \$ 117,313,829 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

| Functions/Programs | Program Revenues | | | | |
|-------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 3,478,830 | \$ 1,859,954 | \$ - | \$ 100,000 | \$ (1,518,876) |
| Public safety..... | 13,543,576 | 858,936 | 464,731 | - | (12,219,909) |
| Education..... | 45,333,721 | 1,197,350 | 12,439,378 | 30,095 | (31,666,898) |
| Public works..... | 7,316,421 | 1,226,164 | 236,138 | - | (5,854,119) |
| Human services..... | 1,003,050 | 199,163 | 142,523 | - | (661,364) |
| Culture and recreation..... | 2,650,357 | 768,009 | 45,085 | - | (1,837,263) |
| Interest..... | 1,486,300 | - | 333,835 | - | (1,152,465) |
| State and county charges..... | 1,426,649 | - | - | - | (1,426,649) |
| Total Governmental Activities..... | 76,238,904 | 6,109,576 | 13,661,690 | 130,095 | (56,337,543) |
| <i>Business-Type Activities:</i> | | | | | |
| Water..... | 3,210,027 | 4,697,949 | - | - | 1,487,922 |
| Sewer..... | 4,497,580 | 6,518,142 | 56,250 | - | 2,076,812 |
| Light..... | 11,680,146 | 12,890,725 | - | - | 1,210,579 |
| Total Business-Type Activities..... | 19,387,753 | 24,106,816 | 56,250 | - | 4,775,313 |
| Total Primary Government..... | \$ 95,626,657 | \$ 30,216,392 | \$ 13,717,940 | \$ 130,095 | \$ (51,562,230) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2006

| | Primary Government | | |
|---|----------------------------|-----------------------------|-----------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net assets: | | | |
| Net (expense) revenue from previous page..... | \$ (56,337,543) | \$ 4,775,313 | \$ (51,562,230) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 55,069,004 | - | 55,069,004 |
| Motor vehicle and other excise taxes..... | 2,916,700 | - | 2,916,700 |
| Penalties and interest on taxes..... | 420,602 | - | 420,602 |
| Grants and contributions not restricted to specific programs..... | 6,643,029 | - | 6,643,029 |
| Unrestricted investment income..... | 1,197,023 | 166,133 | 1,363,156 |
| Gain on sale of capital assets..... | 603,508 | - | 603,508 |
| Transfers, net | 664,825 | (664,825) | - |
| Total general revenues and transfers..... | 67,514,691 | (498,692) | 67,015,999 |
| Change in net assets..... | 11,177,148 | 4,276,621 | 15,453,769 |
| <i>Net Assets:</i> | | | |
| Beginning of year..... | 77,481,441 | 24,378,619 | 101,860,060 |
| End of year..... | \$ 88,658,589 | \$ 28,655,240 | \$ 117,313,829 |

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

| | General | Town Annex Renovation | Fire Station Construction | Reserved for Appropriation | Other Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|--------------------------|------------------------------|----------------------------------|------------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | | | |
| Cash and cash equivalents..... | \$ 16,692,209 | \$ 109,301 | \$ 1,992,546 | \$ 5,295,589 | \$ 3,227,850 | \$ 1,661,189 | \$ 28,978,684 |
| Investments..... | 5,229 | - | - | 2,253,871 | - | 1,893,312 | 4,152,412 |
| Receivables, net of uncollectibles: | | | | | | | |
| Real estate and personal property taxes..... | 177,712 | - | - | - | - | - | 177,712 |
| Real estate tax deferrals..... | 629,967 | - | - | - | - | - | 629,967 |
| Tax liens..... | 572,794 | - | - | - | - | - | 572,794 |
| Motor vehicle excise taxes..... | 187,171 | - | - | - | - | - | 187,171 |
| Departmental and other..... | 116,361 | - | - | - | - | 9,250 | 125,611 |
| Intergovernmental..... | 6,016,433 | - | - | - | - | 329,466 | 6,345,899 |
| TOTAL ASSETS..... | \$ 24,397,876 | \$ 109,301 | \$ 1,992,546 | \$ 7,549,460 | \$ 3,227,850 | \$ 3,893,217 | \$ 41,170,250 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| LIABILITIES: | | | | | | | |
| Warrants payable..... | \$ 2,055,855 | \$ - | \$ - | \$ - | \$ - | \$ 79,305 | \$ 2,135,160 |
| Accrued liabilities..... | 418,717 | - | - | - | - | - | 418,717 |
| Tax refunds payable..... | 122,000 | - | - | - | - | - | 122,000 |
| Other liabilities..... | 2,097,925 | - | 493,075 | - | - | - | 2,591,000 |
| Deferred revenues..... | 7,643,425 | - | - | - | - | 237,177 | 7,880,602 |
| Notes payable..... | - | - | 1,500,000 | - | 1,000,000 | - | 2,500,000 |
| TOTAL LIABILITIES..... | 12,337,922 | - | 1,993,075 | - | 1,000,000 | 316,482 | 15,647,479 |
| FUND BALANCES: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances and continuing appropriations..... | 402,251 | - | - | - | - | - | 402,251 |
| Stabilization..... | 5,229 | - | - | - | - | - | 5,229 |
| Employee benefits..... | 57,743 | - | - | - | - | - | 57,743 |
| Perpetual permanent funds..... | - | - | - | - | - | 490,577 | 490,577 |
| Unreserved: | | | | | | | |
| Designated for subsequent year's expenditures... | 1,373,464 | - | - | - | - | - | 1,373,464 |
| Designated for capital endowment..... | - | - | - | 2,906,930 | - | - | 2,906,930 |
| Undesignated, reported in: | | | | | | | |
| General fund..... | 10,221,267 | - | - | - | - | - | 10,221,267 |
| Special revenue funds..... | - | - | - | 4,642,530 | - | 2,059,344 | 6,701,874 |
| Capital projects funds..... | - | 109,301 | (529) | - | 2,227,850 | - | 2,336,622 |
| Permanent funds..... | - | - | - | - | - | 1,026,814 | 1,026,814 |
| TOTAL FUND BALANCES..... | 12,059,954 | 109,301 | (529) | 7,549,460 | 2,227,850 | 3,576,735 | 25,522,771 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 24,397,876 | \$ 109,301 | \$ 1,992,546 | \$ 7,549,460 | \$ 3,227,850 | \$ 3,893,217 | \$ 41,170,250 |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

| | |
|---|----------------------|
| Total governmental fund balances..... | \$ 25,522,771 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | 95,268,149 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds..... | 7,880,601 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | (468,851) |
| Inventory is capitalized in the Statement of Activities..... | 49,818 |
| Bond issue costs is capitalized in the Statement of Activities..... | 213,009 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds | |
| Bonds and notes payable..... | (34,629,305) |
| Landfill closure..... | (3,800,000) |
| Unamortized premium on bonds payable..... | (292,417) |
| Compensated absences..... | <u>(1,085,186)</u> |
| Net effect of reporting long-term liabilities..... | <u>(39,806,908)</u> |
| Net assets of governmental activities..... | <u>\$ 88,658,589</u> |

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2006

| | General | Town Annex Renovation | Fire Station Construction | Reserved for Appropriation | Other Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------|------------------------------|----------------------------------|------------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 55,340,293 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 55,340,293 |
| Motor vehicle and other excise taxes..... | 2,877,590 | - | - | - | - | - | 2,877,590 |
| Charges for services..... | 1,834,976 | - | - | - | - | - | 1,834,976 |
| Penalties and interest on taxes..... | 420,602 | - | - | - | - | - | 420,602 |
| Licenses and permits..... | 824,491 | - | - | - | - | 186,876 | 1,011,367 |
| Fines and forfeitures..... | 700,819 | - | - | - | - | - | 700,819 |
| Intergovernmental..... | 17,005,497 | - | - | - | - | 3,355,709 | 20,361,206 |
| Departmental and other..... | - | - | - | 1,298,330 | - | 1,482,287 | 2,780,617 |
| Contributions..... | 13,489 | - | - | 1,278 | - | 404,146 | 418,913 |
| Investment income..... | 995,419 | - | - | 143,816 | - | 57,788 | 1,197,023 |
| Miscellaneous..... | - | - | - | - | - | 100,000 | 100,000 |
| TOTAL REVENUES..... | 80,013,176 | - | - | 1,443,424 | - | 5,586,806 | 87,043,406 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government..... | 2,422,679 | - | - | - | - | 536,858 | 2,959,537 |
| Public safety..... | 9,259,314 | - | - | 670 | - | 106,102 | 9,366,086 |
| Education..... | 39,508,764 | - | - | - | - | 4,323,899 | 43,832,663 |
| Public works..... | 6,188,189 | - | - | - | - | 13,702 | 6,201,891 |
| Human services..... | 829,361 | - | - | - | - | 132,193 | 961,554 |
| Culture and recreation..... | 2,200,632 | - | - | - | - | 118,577 | 2,319,209 |
| Pension benefits..... | 3,282,202 | - | - | - | - | - | 3,282,202 |
| Employee benefits..... | 1,788,418 | - | - | - | - | - | 1,788,418 |
| State and county charges..... | 1,426,649 | - | - | - | - | - | 1,426,649 |
| Capital outlay..... | 546,658 | 195,172 | 8,849,751 | - | 3,167,421 | 425,423 | 13,184,425 |
| Debt service: | | | | | | | |
| Principal..... | 2,598,170 | - | - | - | - | - | 2,598,170 |
| Interest..... | 1,489,799 | - | - | - | - | - | 1,489,799 |
| TOTAL EXPENDITURES..... | 71,540,835 | 195,172 | 8,849,751 | 670 | 3,167,421 | 5,656,754 | 89,410,603 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 8,472,341 | (195,172) | (8,849,751) | 1,442,754 | (3,167,421) | (69,948) | (2,367,197) |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Proceeds from bonds and notes..... | - | - | 2,030,000 | - | 965,000 | - | 2,995,000 |
| Premium from issuance of bonds..... | 40,441 | - | - | - | - | - | 40,441 |
| Insurance proceeds..... | - | - | - | - | - | 30,095 | 30,095 |
| Sale of capital assets..... | - | - | - | 603,508 | - | - | 603,508 |
| Transfers in..... | 1,064,324 | - | 603,509 | 3,752,354 | 2,726,499 | - | 8,146,686 |
| Transfers out..... | (6,044,229) | - | - | (1,288,508) | (124,324) | (24,800) | (7,481,861) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | (4,939,464) | - | 2,633,509 | 3,067,354 | 3,567,175 | 5,295 | 4,333,869 |
| NET CHANGE IN FUND BALANCES..... | 3,532,877 | (195,172) | (6,216,242) | 4,510,108 | 399,754 | (64,653) | 1,966,672 |
| FUND BALANCES AT BEGINNING OF YEAR (as restated)..... | 8,527,077 | 304,473 | 6,215,713 | 3,039,352 | 1,828,096 | 3,641,388 | 23,556,099 |
| FUND BALANCES AT END OF YEAR..... | \$ 12,059,954 | \$ 109,301 | \$ (529) | \$ 7,549,460 | \$ 2,227,850 | \$ 3,576,735 | \$ 25,522,771 |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds..... \$ 1,966,672

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..... | 13,184,425 | |
| Depreciation expense..... | (2,684,845) | |
| | | |
| Net effect of reporting capital assets..... | | 10,499,580 |

Governmental funds report inventories as expenditures. However in the Statement of Activities the cost of those assets is capitalized and expensed when depleted..... (2,026)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue..... (925,782)

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

| | | |
|---|-------------|-----------|
| Amortization of issuance costs..... | (17,720) | |
| Amortization of bond premiums..... | 20,339 | |
| Proceeds from bonds and notes..... | (2,995,000) | |
| Premium from issuance of bonds..... | (40,441) | |
| Bond issue costs..... | 39,994 | |
| Debt service principal payments..... | 2,598,170 | |
| | | |
| Net effect of reporting long-term debt..... | | (394,658) |

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

| | | |
|---|--------|--------|
| Net change in compensated absences accrual..... | 32,481 | |
| Net change in accrued interest on long-term debt..... | 881 | |
| | | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | 33,362 |

| | | |
|--|--|---------------|
| Change in net assets of governmental activities..... | | \$ 11,177,148 |
|--|--|---------------|

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

| Business-type Activities - Enterprise Funds | | | | |
|--|---------------------|----------------------|---------------------------------------|----------------------|
| | Water | Sewer | Light (as of December 31, 2005) | Total |
| ASSETS | | | | |
| CURRENT: | | | | |
| Cash and cash equivalents..... | \$ 3,226,017 | \$ 1,138,995 | \$ 2,515,374 | \$ 6,880,386 |
| Restricted cash and cash equivalents..... | - | - | 1,072,053 | 1,072,053 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Tax liens..... | 9,865 | 19,424 | - | 29,289 |
| User fees..... | 1,749,098 | 3,135,700 | 780,557 | 5,665,355 |
| Inventory..... | 182,643 | 15,512 | 264,245 | 462,400 |
| Other assets..... | - | - | 155,126 | 155,126 |
| Prepaid expenses..... | - | - | 23,714 | 23,714 |
| Total current assets..... | 5,167,623 | 4,309,631 | 4,811,069 | 14,288,323 |
| NONCURRENT: | | | | |
| Capital assets, net of accumulated depreciation..... | 4,066,559 | 5,862,225 | 7,369,272 | 17,298,056 |
| TOTAL ASSETS..... | 9,234,182 | 10,171,856 | 12,180,341 | 31,586,379 |
| LIABILITIES | | | | |
| CURRENT: | | | | |
| Warrants payable..... | 255,265 | 54,093 | 680,594 | 989,952 |
| Accrued liabilities..... | - | - | 14,828 | 14,828 |
| Compensated absences..... | 2,851 | 2,056 | 5,936 | 10,843 |
| Bonds and notes payable..... | 65,000 | 13,750 | 200,000 | 278,750 |
| Total current liabilities..... | 323,116 | 69,899 | 901,358 | 1,294,373 |
| NONCURRENT: | | | | |
| Compensated absences..... | 54,176 | 39,063 | 112,792 | 206,031 |
| Other liabilities..... | - | - | 320,735 | 320,735 |
| Bonds and notes payable..... | 455,000 | 55,000 | 600,000 | 1,110,000 |
| Total noncurrent liabilities..... | 509,176 | 94,063 | 1,033,527 | 1,636,766 |
| TOTAL LIABILITIES..... | 832,292 | 163,962 | 1,934,885 | 2,931,139 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt..... | 3,546,559 | 5,793,475 | 6,569,272 | 15,909,306 |
| Restricted for: | | | | |
| Debt service..... | - | - | 1,416,000 | 1,416,000 |
| Unrestricted..... | 4,855,331 | 4,214,419 | 2,260,184 | 11,329,934 |
| TOTAL NET ASSETS..... | \$ 8,401,890 | \$ 10,007,894 | \$ 10,245,456 | \$ 28,655,240 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

| | Business-type Activities - Enterprise Funds | | | |
|--|---|----------------------|---------------------------------------|----------------------|
| | Water | Sewer | Light (as of December 31, 2005) | Total |
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 1,697,949 | \$ 6,518,142 | \$ 12,857,676 | \$ 24,073,767 |
| Other | - | - | 33,049 | 33,049 |
| TOTAL OPERATING REVENUES | 1,697,949 | 6,518,142 | 12,890,725 | 24,106,816 |
| OPERATING EXPENSES: | | | | |
| Cost of services and administration | 3,048,472 | 4,349,739 | 10,545,405 | 17,943,616 |
| Claims and judgements | - | - | 18,436 | 18,436 |
| Depreciation | 161,555 | 147,841 | 1,071,124 | 1,380,520 |
| TOTAL OPERATING EXPENSES | 3,210,027 | 4,497,580 | 11,634,965 | 19,342,572 |
| OPERATING INCOME (LOSS) | 1,487,922 | 2,020,562 | 1,255,760 | 4,764,244 |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| Investment income | 97,508 | - | 68,625 | 166,133 |
| Interest expense | - | - | (45,181) | (45,181) |
| Intergovernmental | - | 56,250 | - | 56,250 |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET | 97,508 | 56,250 | 23,444 | 177,202 |
| INCOME (LOSS) BEFORE OPERATING TRANSFERS | 1,585,430 | 2,076,812 | 1,279,204 | 4,941,446 |
| TRANSFERS: | | | | |
| Transfers in | - | 220,175 | - | 220,175 |
| Transfers out | (135,000) | (100,000) | (650,000) | (885,000) |
| TOTAL OPERATING TRANSFERS | (135,000) | 120,175 | (650,000) | (664,825) |
| CHANGE IN NET ASSETS | 1,450,430 | 2,196,987 | 629,204 | 4,276,621 |
| NET ASSETS AT BEGINNING OF YEAR | 3,951,460 | 7,810,907 | 9,616,252 | 24,378,619 |
| NET ASSETS AT END OF YEAR | \$ 3,401,890 | \$ 10,007,894 | \$ 10,245,456 | \$ 28,655,240 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

| | Business-type Activities - Enterprise Funds | | | |
|---|---|--------------|---------------------------------------|---------------|
| | Water | Sewer | Light (as of December 31, 2005) | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Receipts from customers and users..... | \$ 4,306,672 | \$ 5,822,280 | \$ 12,841,183 | \$ 22,970,135 |
| Claims and judgements..... | - | - | (18,436) | (18,436) |
| Payments to vendors..... | (1,753,576) | (3,624,126) | (8,318,401) | (13,696,103) |
| Payments to employees..... | (1,104,478) | (814,516) | (2,408,865) | (4,327,859) |
| NET CASH FROM OPERATING ACTIVITIES..... | 1,448,618 | 1,383,638 | 2,095,481 | 4,927,737 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | | |
| Transfers in..... | - | 220,175 | - | 220,175 |
| Transfers out..... | (135,000) | (100,000) | (650,000) | (885,000) |
| Intergovernmental subsidy..... | - | 56,250 | - | 56,250 |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES..... | (135,000) | 176,425 | (650,000) | (608,575) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Proceeds from the issuance of bonds and notes..... | - | 68,750 | - | 68,750 |
| Acquisition and construction of capital assets..... | (754,632) | (793,963) | (1,299,491) | (2,848,086) |
| Principal payments on bonds and notes..... | (65,000) | - | (200,000) | (265,000) |
| Interest expense..... | - | - | (36,106) | (36,106) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (819,632) | (725,213) | (1,535,597) | (3,080,442) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Rate stabilization reserve..... | - | - | (596,041) | (596,041) |
| Investment income..... | 97,508 | - | 68,625 | 166,133 |
| NET CASH FROM INVESTING ACTIVITIES..... | 97,508 | - | (527,416) | (429,908) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | 591,494 | 834,850 | (617,532) | 808,812 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 2,634,523 | 304,145 | 4,204,959 | 7,143,627 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 3,226,017 | \$ 1,138,995 | \$ 3,587,427 | \$ 7,952,439 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES: | | | | |
| Operating income (loss)..... | \$ 1,487,922 | \$ 2,020,562 | \$ 1,255,760 | \$ 4,764,244 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | |
| Depreciation..... | 161,555 | 147,841 | 1,071,124 | 1,380,520 |
| Changes in assets and liabilities: | | | | |
| Water and sewer liens..... | 30,515 | 43,218 | - | 73,733 |
| User fees..... | (421,792) | (739,080) | (56,538) | (1,217,410) |
| Inventory..... | (12,733) | (1,868) | (5,495) | (20,096) |
| Prepaid expenses..... | - | - | (98) | (98) |
| Purchased power advance deposits..... | - | - | (56,420) | (56,420) |
| Warrants payable..... | 200,068 | (88,787) | (71,259) | 40,022 |
| Accrued liabilities..... | - | - | (37,956) | (37,956) |
| Customer deposits..... | - | - | 6,997 | 6,997 |
| Accrued compensated absences..... | 3,083 | 1,752 | (10,634) | (5,799) |
| Total adjustments..... | (39,304) | (636,924) | 839,721 | 163,493 |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 1,448,618 | \$ 1,383,638 | \$ 2,095,481 | \$ 4,927,737 |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

| | Pension Trust Fund (as of December 31, 2005) | Private Purpose Trust Funds | Agency Funds |
|--|---|-----------------------------------|-----------------|
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 313,511 | \$ 1,046,650 | \$ 203,552 |
| Investments..... | 52,858,763 | - | - |
| Interest and dividends..... | 1,430 | - | - |
| Due from general fund..... | 2,005,397 | - | 129,176 |
| TOTAL ASSETS..... | 55,179,101 | 1,046,650 | 332,728 |
| LIABILITIES | | | |
| Warrants payable..... | 39,363 | - | - |
| Liabilities due depositors..... | - | - | 203,552 |
| Deferred revenue..... | - | - | 129,176 |
| TOTAL LIABILITIES..... | 39,363 | - | 332,728 |
| NET ASSETS | | | |
| Held in trust for pension benefits and other purposes..... | \$ 55,139,738 | \$ 1,046,650 | \$ - |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

| | Pension Trust Fund (as of December 31, 2005) | Private Purpose Trust Funds |
|--|---|-----------------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employer..... | \$ 3,959,338 | \$ - |
| Employee..... | 1,622,049 | - |
| Miscellaneous..... | - | 302,190 |
| Total contributions..... | 5,581,387 | 302,190 |
| Net investment income (loss): | | |
| Net change in fair value of investments..... | 2,274,828 | - |
| Interest..... | 1,658,370 | 36,955 |
| Total investment income (loss)..... | 3,933,198 | 36,955 |
| Less: investment expense..... | (402,092) | - |
| Net investment income (loss)..... | 3,531,106 | 36,955 |
| Intergovernmental..... | 238,912 | - |
| Transfers from other systems..... | 266,496 | - |
| TOTAL ADDITIONS..... | 9,617,901 | 339,145 |
| DEDUCTIONS: | | |
| Administration..... | 129,186 | - |
| Transfers to other systems..... | 680,163 | - |
| Retirement benefits and refunds..... | 7,740,462 | - |
| Educational scholarships..... | - | 22,614 |
| TOTAL DEDUCTIONS..... | 8,549,811 | 22,614 |
| CHANGE IN NET ASSETS..... | 1,068,090 | 316,531 |
| NET ASSETS AT BEGINNING OF YEAR..... | 54,071,648 | 730,119 |
| NET ASSETS AT END OF YEAR..... | \$ 55,139,738 | \$ 1,046,650 |

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Belmont, Massachusetts 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 and financial reporting principles. The significant Town accounting policies are described herein.

A. Reporting Entity

The Town of Belmont, Massachusetts (Town) is a municipal corporation that is governed by an elected three member Board of Selectmen. They in turn appoint a Town Administrator who has general supervision of and control over the Town's boards, commissions, officers and departments. The legislative body of the Town is the elected Town Meeting members which consist of 28 members elected for a three-year term in addition to some ex-officio members.

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. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

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

Availability of Financial Information for Component Units

The System issues a publicly available audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at Town Hall, 19 Moore Street, Belmont, MA 02478.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) 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.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and 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.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and water, sewer and airport enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *Town Annex Renovation Fund* accounts for activity related to restoration and any renovations to the Town Hall Annex.

The *Fire Station Construction Fund* accounts for construction of a Town fire station.

The *Reserved for Appropriation Fund* accounts for specific revenue sources that by law must be accounted for separately and spent by appropriation.

The *Other Capital Projects Fund* accounts for the proceeds of bonds sold, intergovernmental grants and operating transfers in to finance major capital acquisitions and construction projects of the governmental funds.

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than 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 or reported as a major fund).

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.

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

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

The following major proprietary funds are reported:

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

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

The *light enterprise fund* is used to account for the Town's electric light department activities.

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 by the Town for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

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

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust or 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 by the Town.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments*Government-Wide and Fund Financial Statements*

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

E. Accounts Receivable*Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed during the year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

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

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

Water and Sewer

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

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables are recorded as receivables in the fiscal year accrued. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded 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.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase in the fund financial statements. Such inventories are capitalized in the government-wide financial statements. Inventories of the Light Fund are carried at average cost.

G. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (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, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 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 capital assets are as follows:

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|------------------------------|---|
| Land improvements..... | 20 |
| Buildings..... | 40-50 |
| Machinery and equipment..... | 5-20 |
| Infrastructure..... | 15-100 |

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.

The fixed assets of the municipal light enterprise fund are capitalized upon purchase and depreciated at a rate of 3% of the cost of plant in service at the beginning of the calendar year, exclusive of land and land rights. The municipal light enterprise fund charges maintenance to expense when incurred. Replacements and betterments are charged to fixed assets.

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

Deferred revenue at the governmental 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.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that 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:

"Debt service" – represents amounts held for the payment of debt service principal and interest.

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

"Stabilization" represents the amount accumulated for general and/or capital purposes upon Town Meeting approval.

"Employee benefits" represents amounts held for the purpose of paying health claims.

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

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2007 operating budget.

"Capital Endowment" represents amounts of funds designated for long range capital planning. The Capital Endowment Fund was capitalized with funds from the sale of the Town's interest in the local cable television system. The net income generated from this fund may be appropriated annually at Town Meeting upon recommendation of the Board of Selectmen for various purposes for which the Town is authorized to borrow, except routine maintenance or repairs to any capital assets. Principal of the Fund may be appropriated by the Board of Selectmen and two-thirds vote of the Town Meeting. Any excess earnings not appropriated will be reinvested and become part of the Fund.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

Investment income from proprietary funds is retained within the respective fund.

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health and life 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 50-90% share of insurance premiums in the general fund in

the fiscal year paid. For the fiscal year ended June 30, 2006, this expense/expenditure totaled approximately \$2,935,000. There were 520 participants eligible to receive benefits at June 30, 2006.

P. Use of Estimates

Government-Wide and Fund Financial Statements

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

Q. Individual Fund Deficits

Several individual fund deficits exist within the Special Revenue Fund. These deficits are expected to be funded through federal and state grants.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

S. Reclassifications

The nonmajor governmental funds beginning balance was reduced by \$3,039,352 due to the reclassification of certain special revenue funds to major funds.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term investments". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$28,625,672 and the bank balance totaled \$30,648,339. Of the bank balance, \$700,115 was covered by Federal Depository Insurance, \$2,469,165 was covered by the Depositors Insurance Fund, and \$27,479,059 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2005, the carrying amount of the System's deposits totaled \$313,511 and the bank balance totaled \$314,194. All of the bank balance was covered by Federal Depository Insurance.

Investments

Listed below are the investments of the Town and System as of June 30, 2006 and December 31, 2005, respectively.

| | | | Maturity | | |
|--|---------------|-----------------|--------------|------------|------------------|
| | Fair Value | Under 1 Year | 1-5 Years | 6-10 Years | Over 10 Years |
| <u>Debt Securities</u> | | | | | |
| U.S. Government Securities..... | \$ 595,598 | \$ 595,598 | \$ - | \$ - | \$ - |
| Corporate Bonds..... | 328,338 | 239,215 | - | 89,123 | - |
| Municipal Bonds..... | 249,880 | 249,880 | - | - | - |
| Federal Home Loan Banks..... | 357,063 | 196,734 | 160,329 | - | - |
| Federal National Mortgage Association..... | 319,145 | 121,767 | 197,378 | - | - |
| Federal Home Loan Mortgage Corp..... | 1,051,633 | - | 895,661 | 12,923 | 143,049 |
| Total Debt Securities..... | 2,901,657 | \$ 1,403,194 | \$ 1,253,368 | \$ 102,046 | \$ 143,049 |
| <u>Other Investments</u> | | | | | |
| Equity Securities..... | 1,175,755 | | | | |
| Preferred Stocks..... | 75,000 | | | | |
| Money Market Mutual Funds..... | 998,755 | | | | |
| MMDT..... | 8,556,897 | | | | |
| Total Investments..... | \$ 13,708,065 | | | | |

System investment balances at December 31, 2005:

| | | | Maturity | | | | |
|--|---------------|------|-----------------|-----------|---------------|------------------|--|
| | Fair Value | | Under 1 Year | 1-5 Years | 6-10 Years | Over 10 Years | |
| Debt Securities | | | | | | | |
| Bond Mutual Fund..... | \$ 11,506,554 | \$ - | \$ - | \$ - | \$ 11,506,554 | \$ - | |
| Bond Mutual Fund..... | 4,301,678 | - | - | - | 4,301,678 | - | |
| Total Debt Securities..... | 15,808,232 | \$ - | \$ - | \$ - | 15,808,232 | \$ - | |
| Other Investments | | | | | | | |
| Equity Mutual Funds..... | 9,975,241 | | | | | | |
| Equity Securities..... | 12,862,924 | | | | | | |
| International Equity Mutual Funds..... | 7,169,282 | | | | | | |
| PRIT Real Estate Fund..... | 2,513,411 | | | | | | |
| PRIT Alternative Fund..... | 729,126 | | | | | | |
| PRIT Absolute Return Fund..... | 2,635,349 | | | | | | |
| PRIT Fund..... | 1,165,198 | | | | | | |
| Total Investments..... | \$ 52,858,763 | | | | | | |

* Average life of underlying holdings in bond mutual funds is 6.3 years.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of an outside party. Of the Town's investments in U.S. Treasury Notes, U.S. Government Securities, corporate and municipal bonds, Federal Home Loan Banks, Federal National Mortgage Association, Federal Home Loan Mortgage Corp., equity securities, and preferred stock, as detailed above, the Town has a custodial credit risk exposure of \$4,152,412 because the related securities are uninsured, unregistered and held by the counterparty. The Town does not have a formal investment policy for custodial credit risk.

Of the System's total investments in bond mutual funds, equity mutual funds, international equity mutual funds, PRIT Real estate, PRIT Alternative Fund, PRIT Absolute Return Fund, PRIT Fund and of equities, the System has custodial risk exposure of \$52,858,763 because the related securities are uninsured, unregistered and held by the counterparty.

The System has an investment policy that states that assets of the plan shall be invested to ensure that principal is preserved and enhanced, both in real and nominal terms. The policy states that up to 61% of the System's assets can be invested in equities, up to 45% in fixed income, up to 7% in real estate fund, and up to 5% in alternative investments.

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.

The System's policy states that the average duration of the managed portfolio shall not be more than 20% higher than the market, as measured by the Lehman Aggregate Index.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk.

The System has a policy that states no more than 20% of the fixed income assets may be invested in below investment grade securities (rated BBB by Standard & Poor's) and the average duration of the fixed income portfolio cannot be more than 20% higher than the market as measured by Lehman Aggregate Index.

Listed below are the quality ratings for the investments of the Town and System as of June 30, 2006 and December 31, 2005, respectively.

| Investment Type | Quality Ratings | | | | | |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|------------------|
| | Fair Value | AAA | AA2 | AA3 | A2 | N/A |
| <u>Debt Securities</u> | | | | | | |
| U.S. Government Securities..... | \$ 595,598 | \$ 595,598 | \$ - | \$ - | \$ - | \$ - |
| Corporate Bonds..... | 328,338 | - | - | 120,694 | 118,521 | 89,123 |
| Municipal Bonds..... | 249,880 | - | 249,880 | - | - | - |
| Federal Home Loan Banks..... | 357,063 | 357,063 | - | - | - | - |
| Federal National Mortgage Association..... | 319,145 | 319,145 | - | - | - | - |
| Federal Home Loan Mortgage Corp..... | 1,051,633 | 1,051,633 | - | - | - | - |
| Total Debt Securities..... | <u>\$ 2,901,657</u> | <u>\$ 2,323,439</u> | <u>\$ 249,880</u> | <u>\$ 120,694</u> | <u>\$ 118,521</u> | <u>\$ 89,123</u> |

System quality ratings at December 31, 2005:

| Investment Type | Quality Ratings | | |
|----------------------------|----------------------|----------------------|---------------------|
| | Fair Value | AAA | N/A |
| <u>Debt Securities</u> | | | |
| Bond Mutual Fund..... | \$ 11,506,554 | 11,506,554 | - |
| Bond Mutual Fund..... | 4,301,673 | - | 4,301,678 |
| Total Debt Securities..... | <u>\$ 15,808,232</u> | <u>\$ 11,506,554</u> | <u>\$ 4,301,678</u> |

Concentration of Credit Risk

The Town places no limit on the amount the Town may invest in any one issuer. The Town does not have more than 5% of its investments with any one issuer that is not explicitly backed by the U.S. Government as of June 30, 2006.

For the System, no fixed income security, except issues of the U. S. Government, can comprise more than 5% of the Systems assets, measured at market; and no individual portfolio can hold more than 5% of its assets in securities of any single entity, except issues of the U. S. Government. Further, no equity security can comprise more than 5% of the equity portfolio measured at book value.

NOTE 3 – RECEIVABLES

At June 30, 2006, receivables for the individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--|---------------------|---------------------------------|---------------------|
| <u>Receivables:</u> | | | |
| Real estate and personal property taxes..... | \$ 182,695 | \$ (4,983) | \$ 177,712 |
| Real estate tax deferrals..... | 629,967 | - | 629,967 |
| Motor vehicle and other excise taxes..... | 359,137 | (171,966) | 187,171 |
| Departmental and other..... | 647,343 | (521,732) | 125,611 |
| Intergovernmental..... | 6,345,899 | - | 6,345,899 |
| | <u>\$ 8,165,041</u> | <u>\$ (698,681)</u> | <u>\$ 7,466,360</u> |

At June 30, 2006, receivables for the enterprise funds consist of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---------------------------------|---------------------|---------------------------------|---------------------|
| <u>Receivables:</u> | | | |
| Water user fees..... | \$ 1,749,098 | \$ - | \$ 1,749,098 |
| Water Enterprise Tax Liens..... | 9,865 | - | 9,865 |
| Sewer user fees..... | 3,135,700 | - | 3,135,700 |
| Sewer Enterprise Tax Liens..... | 19,424 | - | 19,424 |
| Light user fees..... | 780,557 | - | 780,557 |
| | <u>\$ 5,694,644</u> | <u>\$ -</u> | <u>\$ 5,694,644</u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | General Fund | Nonmajor Governmental Funds | Total |
|---|---------------------|-----------------------------------|---------------------|
| <u>Receivable and other asset type:</u> | | | |
| Real estate, personal property and tax deferrals..... | \$ 648,916 | \$ - | \$ 648,916 |
| Tax liens and foreclosures..... | 572,794 | - | 572,794 |
| Motor vehicle and other excise..... | 187,171 | - | 187,171 |
| Intergovernmental..... | 6,117,972 | 227,927 | 6,345,899 |
| Departmental..... | 116,572 | 9,250 | 125,822 |
| | <u>\$ 7,643,425</u> | <u>\$ 237,177</u> | <u>\$ 7,880,602</u> |

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------|----------------|-------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 16,196,009 | \$ - | \$ - | \$ 16,196,009 |
| Construction in progress..... | 6,468,103 | 9,674,512 | (3,848,972) | 12,293,643 |
| Total capital assets not being depreciated..... | 22,664,112 | 9,674,512 | (3,848,972) | 28,489,652 |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 2,393,301 | - | (888) | 2,392,413 |
| Buildings..... | 72,720,736 | 5,009,953 | (299,872) | 77,430,817 |
| Machinery and equipment..... | 7,651,010 | 1,705,519 | (999,312) | 8,357,217 |
| Infrastructure..... | 21,343,406 | 643,413 | - | 21,986,819 |
| Total capital assets being depreciated..... | 104,108,453 | 7,358,885 | (1,300,072) | 110,167,266 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (1,880,781) | (55,005) | 888 | (1,934,898) |
| Buildings..... | (29,637,337) | (1,642,891) | 299,872 | (30,980,356) |
| Machinery and equipment..... | (4,767,351) | (693,791) | 999,312 | (4,461,830) |
| Infrastructure..... | (5,718,527) | (293,158) | - | (6,011,685) |
| Total accumulated depreciation..... | (42,003,996) | (2,684,845) | 1,300,072 | (43,388,769) |
| Total capital assets being depreciated, net..... | 62,104,457 | 4,674,040 | - | 66,778,497 |
| Total governmental activities capital assets, net..... | \$ 84,768,569 | \$ 14,348,552 | \$ (3,848,972) | \$ 95,268,149 |

Business-Type Activities:**Water:**Capital assets not being depreciated:

| | | | | | | | | |
|-----------|----|-------|----|---|----|---|----|-------|
| Land..... | \$ | 3,138 | \$ | - | \$ | - | \$ | 3,138 |
|-----------|----|-------|----|---|----|---|----|-------|

Capital assets being depreciated:

| | | | | |
|--|-------------------|----------------|----------|-------------------|
| Land improvements..... | 7,822 | - | - | 7,822 |
| Buildings..... | 146,491 | - | - | 146,491 |
| Machinery and equipment..... | 546,035 | 315,015 | - | 861,050 |
| Infrastructure..... | 20,869,751 | 439,617 | - | 21,309,368 |
| Total capital assets being depreciated..... | 21,570,099 | 754,632 | - | 22,324,731 |

Less accumulated depreciation for:

| | | | | |
|--|---------------------|------------------|----------|---------------------|
| Land improvements..... | (7,822) | - | - | (7,822) |
| Buildings..... | (120,393) | (3,080) | - | (123,473) |
| Machinery and equipment..... | (334,787) | (72,883) | - | (407,670) |
| Infrastructure..... | (17,636,753) | (85,592) | - | (17,722,345) |
| Total accumulated depreciation..... | (18,099,755) | (161,555) | - | (18,261,310) |

| | | | | |
|--|-----------|---------|---|-----------|
| Total capital assets being depreciated, net..... | 3,470,344 | 593,077 | - | 4,063,421 |
|--|-----------|---------|---|-----------|

| | | | | |
|---|--------------|------------|------|--------------|
| Total business-type activities capital assets, net..... | \$ 3,473,482 | \$ 593,077 | \$ - | \$ 4,066,559 |
|---|--------------|------------|------|--------------|

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|------------------|-----------|--------------------|
| Sewer: | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Machinery and equipment..... | 377,929 | 126,900 | - | 504,829 |
| Infrastructure..... | 6,547,457 | 667,063 | - | 7,214,520 |
| Total capital assets being depreciated..... | 6,925,386 | 793,963 | - | 7,719,349 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Machinery and equipment..... | (91,569) | (53,927) | - | (145,496) |
| Infrastructure..... | (1,617,714) | (93,914) | - | (1,711,628) |
| Total accumulated depreciation..... | (1,709,283) | (147,841) | - | (1,857,124) |
| Total capital assets being depreciated, net..... | 5,216,103 | 646,122 | - | 5,862,225 |
| Total business-type activities capital assets, net..... | \$ 5,216,103 | \$ 646,122 | \$ - | \$ 5,862,225 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------|-----------|-------------------|
| Light: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 9,348 | \$ - | \$ - | \$ 9,348 |
| <u>Capital assets being depreciated:</u> | | | | |
| Distribution Plant..... | 15,471,076 | 1,111,069 | (196,654) | 16,385,491 |
| General Plant..... | 5,951,402 | 188,422 | (41,180) | 6,098,644 |
| Total capital assets being depreciated..... | 21,422,478 | 1,299,491 | (237,834) | 22,484,135 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Distribution Plant..... | (11,821,768) | (773,549) | 196,654 | (12,398,663) |
| General Plant..... | (2,469,153) | (297,575) | 41,180 | (2,725,548) |
| Total accumulated depreciation..... | (14,290,921) | (1,071,124) | 237,834 | (15,124,211) |
| Total capital assets being depreciated, net..... | 7,131,557 | 228,367 | - | 7,359,924 |
| Total business-type activities capital assets, net..... | \$ 7,140,905 | \$ 228,367 | \$ - | \$ 7,369,272 |

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

Governmental Activities:

| | |
|-----------------------------|-----------|
| General government..... | \$ 40,521 |
| Public safety..... | 590,945 |
| Education..... | 1,235,794 |
| Public works..... | 691,718 |
| Human services..... | 22,218 |
| Culture and recreation..... | 103,649 |

Total depreciation expense - governmental activities..... \$ 2,684,845

Business-Type Activities:

| | |
|------------|------------|
| Water..... | \$ 161,555 |
| Sewer..... | 147,841 |
| Light..... | 1,071,124 |

Total depreciation expense - business-type activities..... \$ 1,380,520

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

| Transfers Out: | Transfers In: | | | | | Total |
|----------------------------------|---------------------|---------------------------|------------------------|-----------------------|----------------------------|---------------------|
| | General Fund | Fire Station Construction | Other Capital Projects | Sewer Enterprise Fund | Reserved for Appropriation | |
| General Fund..... | \$ - | \$ - | \$ 2,096,500 | \$ 195,375 | \$ 3,752,354 | \$ 6,044,229 |
| Other Capital Projects..... | 124,324 | - | - | - | - | 124,324 |
| Nonmajor Governmental Funds..... | - | - | - | 24,800 | - | 24,800 |
| Reserved for Appropriation | 55,000 | 603,509 | 629,999 | - | - | 1,288,508 |
| Water Enterprise Fund..... | 135,000 | - | - | - | - | 135,000 |
| Sewer Enterprise Fund..... | 100,000 | - | - | - | - | 100,000 |
| Light Enterprise Fund..... | 650,000 | - | - | - | - | 650,000 |
| | <u>\$ 1,064,324</u> | <u>\$ 603,509</u> | <u>\$ 2,726,499</u> | <u>\$ 220,175</u> | <u>\$ 3,752,354</u> | <u>\$ 8,366,861</u> |

Transfers represent amounts voted to fund the fiscal year 2006 operating budget, amounts transferred to fund various capital projects, the transfer of funds received after the dissolution of NESWC and also the transfer of expenditures to the sewer fund for sewer related capital outlay.

NOTE 6 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2006 are as follows:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2005 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2006 |
|------|-------------------------|----------|----------|--------------------------|---------------------|-------------------|--------------------------|
| BAN | Land Acquisition..... | 3.00 | 03/16/06 | \$ 825,000 | \$ - | \$ 825,000 | \$ - |
| BAN | Cemetery..... | 4.25 | 06/28/07 | - | 500,000 | - | 500,000 |
| BAN | Fire Station..... | 4.25 | 06/28/07 | - | 1,500,000 | - | 1,500,000 |
| BAN | Financial Software..... | 4.25 | 06/28/07 | - | 500,000 | - | 500,000 |
| | | | | <u>\$ 825,000</u> | <u>\$ 2,500,000</u> | <u>\$ 825,000</u> | <u>\$ 2,500,000</u> |

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 2 1/2% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2006, and the debt service requirements follow.

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2005 | Issued | Redeemed | Outstanding at June 30, 2006 |
|--------------------------------|-------------------------|------------------------------------|--------------|--------------|------------------------------------|
| FY96-00..... | 3.40-5.50 | \$ 10,895,000 | \$ - | \$ 1,090,000 | \$ 9,805,000 |
| Computer Bond..... | 4.20-4.40 | 70,000 | - | 70,000 | - |
| Septic Loan 97-2002..... | 0.00 | 47,476 | - | 3,170 | 44,306 |
| Town Hall Renovations..... | 4.20-4.65 | 1,100,000 | - | 100,000 | 1,000,000 |
| Town Hall Renovation..... | 3.00-4.75 | 10,750,000 | - | 600,000 | 10,150,000 |
| Outdoor Athletic Facility..... | 3.00-3.75 | 1,760,000 | - | 220,000 | 1,540,000 |
| Fire Station Construction..... | 3.00-5.00 | 8,075,000 | - | 425,000 | 7,650,000 |
| Fire Land Acquisition..... | 3.00-5.00 | 1,425,000 | - | 75,000 | 1,350,000 |
| Communications Tower..... | 3.00-5.00 | 110,000 | - | 15,000 | 95,000 |
| Fire Station Construction..... | 4.00-6.00 | - | 2,030,000 | - | 2,030,000 |
| Land Acquisition..... | 4.00-6.00 | - | 780,000 | - | 780,000 |
| Skating Rink..... | 4.00-6.00 | - | 185,000 | - | 185,000 |
| Total..... | | \$ 34,232,476 | \$ 2,995,000 | \$ 2,598,170 | \$ 34,629,306 |

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------|--------------|---------------|
| 2007..... | \$ 2,818,170 | \$ 998,041 | \$ 3,816,211 |
| 2008..... | 2,818,170 | 937,425 | 3,755,595 |
| 2009..... | 2,813,170 | 875,403 | 3,688,573 |
| 2010..... | 2,808,170 | 812,531 | 3,620,701 |
| 2011..... | 2,803,191 | 747,681 | 3,550,872 |
| 2012..... | 2,568,191 | 685,790 | 3,253,981 |
| 2013..... | 2,563,191 | 628,666 | 3,191,857 |
| 2014..... | 2,338,191 | 574,472 | 2,912,663 |
| 2015..... | 2,323,191 | 517,253 | 2,840,444 |
| 2016..... | 1,238,134 | 466,885 | 1,705,019 |
| 2017..... | 1,238,134 | 415,280 | 1,653,414 |
| 2018..... | 1,238,134 | 362,963 | 1,601,097 |
| 2019..... | 1,238,134 | 309,800 | 1,547,934 |
| 2020..... | 1,238,135 | 255,546 | 1,493,681 |
| 2021..... | 1,235,000 | 200,288 | 1,435,288 |
| 2022..... | 1,235,000 | 144,020 | 1,379,020 |
| 2023..... | 1,235,000 | 85,306 | 1,320,306 |
| 2024..... | 640,000 | 40,575 | 680,575 |
| 2025..... | 140,000 | 9,975 | 149,975 |
| 2026..... | 100,000 | 4,200 | 104,200 |
| Total..... | \$ 34,629,306 | \$ 9,072,100 | \$ 43,701,406 |

Bonds and Notes Payable Schedule – Enterprise Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2005 | Issued | Redeemed | Outstanding at June 30, 2006 |
|----------------------|-------------------|------------------------------|------------------|-------------------|------------------------------|
| MWRA Water Main..... | 0.00 | \$ 585,000 | \$ - | \$ 65,000 | \$ 520,000 |
| Sewer..... | 0.00 | - | 68,750 | - | 68,750 |
| Light Bond..... | 4.20-4.60 | 1,000,000 | - | 200,000 | 800,000 |
| Total..... | | <u>\$ 1,585,000</u> | <u>\$ 68,750</u> | <u>\$ 265,000</u> | <u>\$ 1,388,750</u> |

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

Water Enterprise

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|-------------|-------------------|
| 2007..... | \$ 65,000 | \$ - | \$ 65,000 |
| 2008..... | 65,000 | - | 65,000 |
| 2009..... | 65,000 | - | 65,000 |
| 2010..... | 65,000 | - | 65,000 |
| 2011..... | 65,000 | - | 65,000 |
| 2012..... | 65,000 | - | 65,000 |
| 2013..... | 65,000 | - | 65,000 |
| 2014..... | 65,000 | - | 65,000 |
| Total..... | <u>\$ 520,000</u> | <u>\$ -</u> | <u>\$ 520,000</u> |

Sewer Enterprise

| Fiscal Year | Principal | Interest | Total |
|-------------|------------------|-------------|------------------|
| 2007..... | \$ 13,750 | \$ - | \$ 13,750 |
| 2008..... | 13,750 | - | 13,750 |
| 2009..... | 13,750 | - | 13,750 |
| 2010..... | 13,750 | - | 13,750 |
| 2011..... | 13,750 | - | 13,750 |
| Totals..... | <u>\$ 68,750</u> | <u>\$ -</u> | <u>\$ 68,750</u> |

Light Enterprise

| Fiscal Year | Principal | Interest | Total |
|-------------|-------------------|------------------|-------------------|
| 2007..... | \$ 200,000 | \$ 31,800 | \$ 231,800 |
| 2008..... | 200,000 | 22,800 | 222,800 |
| 2009..... | 200,000 | 13,750 | 213,750 |
| 2010..... | 200,000 | 4,600 | 204,600 |
| Total..... | <u>\$ 800,000</u> | <u>\$ 72,950</u> | <u>\$ 872,950</u> |

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, approximately \$1,099,000 of such assistance was received. Approximately \$7,436,000 will be received in future fiscal years. Of this amount, approximately \$1,420,000 represents reimbursement of long-term interest costs, and approximately \$6,016,000 represents reimbursement of approved construction costs. Accordingly, a \$6,016,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit.

At June 30, 2006, the Town had the following authorized and unissued debt:

| Purpose | Amount |
|-------------------------------|----------------------|
| Cemetery..... | \$ 530,000 |
| Communications Tower..... | 291,500 |
| Fire Station..... | 900,000 |
| Land Acquisition..... | 1,000,000 |
| Sewer and Surface Drains..... | 2,754,500 |
| GIS Mapping..... | 125,000 |
| Buildings..... | 1,500,000 |
| Financial Software..... | 611,000 |
| Senior Center..... | 6,328,456 |
| Total..... | <u>\$ 14,040,456</u> |

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

| | Balance June 30, 2005 | Additions | Reductions | Balance June 30, 2006 | Current Portion |
|--|-----------------------------|---------------------|-----------------------|-----------------------------|---------------------|
| Governmental Activities: | | | | | |
| Long-Term Bonds and Notes..... | \$ 34,232,476 | \$ 2,995,000 | \$ (2,598,170) | \$ 34,629,306 | \$ 2,818,170 |
| Landfill Closure..... | 3,800,000 | - | - | 3,800,000 | - |
| Compensated Absences..... | 1,117,668 | - | (32,482) | 1,085,186 | 54,259 |
| Total governmental activity long-term liabilities..... | <u>\$ 39,150,144</u> | <u>\$ 2,995,000</u> | <u>\$ (2,630,652)</u> | <u>\$ 39,514,492</u> | <u>\$ 2,872,429</u> |
| Business-Type Activities: | | | | | |
| Long-Term Bonds and Notes..... | \$ 1,585,000 | \$ 68,750 | \$ (265,000) | \$ 1,388,750 | \$ 278,750 |
| Compensated Absences..... | 222,673 | - | (5,799) | 216,874 | 10,843 |
| Total business type activity long-term liabilities..... | <u>\$ 1,807,673</u> | <u>\$ 68,750</u> | <u>\$ (270,799)</u> | <u>\$ 1,605,624</u> | <u>\$ 289,593</u> |

The long-term liabilities will be liquidated in the future by the general fund and enterprise funds.

NOTE 8 – LANDFILL CLOSURE

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$3,800,000 as the estimate of the landfill closure liability at June 30, 2006. This amount is based on estimates of what it would cost to perform all future closure and post closure care in fiscal year 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 9 – RISK FINANCING*Insurance*

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in a premium-based health care plan for its active and eligible retired employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous two fiscal years.

Workers' Compensation

The Town participates in a premium based workers' compensation insurance plan for its employees, except for police officers and firefighters for which the Town is self insured. The Town's liability related to incurred but not reported claims for police officers and/or firefighters workers compensation is not material at June 30, 2006, and is therefore not reported.

General Liability

The Town is self insured for its general liability insurance. MGL Chapter 258 limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract.

NOTE 10 - PENSION PLAN

Plan Description - The Town contributes to the Belmont Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Belmont Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$6,360,629 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase 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 Belmont Contributory 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 Town Hall, 455 Concord Ave., Belmont, Massachusetts 02478.

At December 31, 2005, the System's membership consists of the following:

| | |
|--|------------|
| Active members..... | 422 |
| Inactive members..... | 76 |
| Disabled members..... | 42 |
| Retirees and beneficiaries currently receiving benefits..... | <u>315</u> |
| Total..... | <u>855</u> |

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. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute approximately 98%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were approximately \$3,900,000, \$3,600,000, and \$3,400,000, respectively, which equaled its required contribution for each fiscal year. The required contribution was determined as part of the January 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 3% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 21 years.

Schedule of Funding Progress
(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 1/1/2006 | \$ 53,736,253 | \$ 101,659,952 | \$ 47,923,699 | 52.9% | \$ 164,549,300 | 29.1% |
| 1/1/2004 | 53,364,538 | 94,947,822 | 41,583,284 | 56.2% | 146,655,300 | 28.4% |
| 1/1/2002 | 52,838,407 | 87,176,074 | 34,337,667 | 60.6% | 131,319,000 | 26.1% |
| 1/1/2000 | 49,941,824 | 70,890,071 | 20,948,247 | 70.4% | 121,019,400 | 17.3% |
| 1/1/1998 | 40,838,623 | 64,600,786 | 23,762,163 | 63.2% | 114,071,500 | 20.8% |

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The Town is responsible for approximately 98.65% of the unfunded liability.

NOTE 11 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling approximately \$14,000,000 for construction of a fire station, for post-closure care costs associated with the Town's landfill, for various sewer and surface drain projects, for a new senior center, for land acquisition and cemetery improvements.

NOTE 12 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2006.

NOTE 13 – FUTURE IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2006, the following GASB pronouncements were implemented:

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in Fiscal 2006. The basic financial statements were not impacted by this GASB.

The GASB issued Statement #44, Economic Condition Reporting: The Statistical Section, which is required to be implemented in Fiscal 2006. This new GASB updates the statistical section that accompanies a state or local government's basic financial statements. The basic financial statements were not impacted by this GASB.

The GASB issued Statement # 46, Net Assets Restricted by Legislation an amendment of GASB Statement No. 34. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The basic financial statements were not impacted by this GASB.

The GASB issued Statement # 47, Accounting for Termination Benefits. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. The basic financial statements were not impacted by this GASB.

The GASB issued Statement #48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues which is required to be implemented in FY2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.

Future GASB Pronouncements:

The GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in Fiscal 2008. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in Fiscal 2009. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2006

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|---------------------|--------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 54,535,589 | \$ 54,535,589 | \$ 54,535,589 |
| Motor vehicle and other excise taxes..... | - | 2,425,000 | 2,425,000 | 2,425,000 |
| Charges for services..... | - | 1,770,800 | 1,770,800 | 1,770,800 |
| Penalties and interest on taxes..... | - | - | - | - |
| Licenses and permits..... | - | 388,700 | 388,700 | 388,700 |
| Fines and forfeitures..... | - | 443,600 | 443,600 | 443,600 |
| Intergovernmental..... | - | 6,902,353 | 6,902,353 | 10,654,707 |
| Investment income..... | - | 424,000 | 424,000 | 424,000 |
| TOTAL REVENUES..... | - | 66,890,042 | 66,890,042 | 70,642,396 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 20,000 | 3,142,820 | 3,162,820 | 2,988,502 |
| Public safety..... | 4,878 | 9,325,077 | 9,329,955 | 9,653,727 |
| Education..... | 175,845 | 33,592,361 | 33,768,206 | 33,407,939 |
| Public works..... | 90,881 | 6,593,589 | 6,684,470 | 6,879,276 |
| Human services..... | 200 | 859,118 | 859,318 | 891,786 |
| Culture and recreation..... | - | 2,187,581 | 2,187,581 | 2,222,583 |
| Pension benefits..... | - | 3,308,436 | 3,308,436 | 3,308,436 |
| Employee benefits..... | 210,000 | 2,536,703 | 2,746,703 | 2,172,976 |
| State and county charges..... | - | 1,427,430 | 1,427,430 | 1,427,430 |
| Capital outlay..... | 626,611 | - | 626,611 | 967,739 |
| Debt service: | | | | |
| Principal..... | - | 2,598,170 | 2,598,170 | 2,598,170 |
| Interest..... | - | 1,702,261 | 1,702,261 | 1,494,461 |
| TOTAL EXPENDITURES..... | 1,128,415 | 67,273,546 | 68,401,961 | 68,013,025 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.... | (1,128,415) | (383,504) | (1,511,919) | 2,629,371 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Premium from issuance of bonds..... | - | - | - | - |
| Transfers in..... | - | 940,000 | 940,000 | 940,000 |
| Transfers out..... | - | (1,686,049) | (1,686,049) | (5,868,203) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | (746,049) | (746,049) | (4,928,203) |
| NET CHANGE IN FUND BALANCE..... | (1,128,415) | (1,129,553) | (2,257,968) | (2,298,832) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 5,266,728 | 5,266,728 | 5,266,728 |
| BUDGETARY FUND BALANCE, End of year..... \$ | (1,128,415) \$ | 4,137,175 \$ | 3,008,760 \$ | 2,967,896 |

See notes to basic financial statements.

| Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance To Final Budget |
|--------------------------------|--|-----------------------------|
| \$ 55,483,751 | \$ - | \$ 948,162 |
| 2,877,590 | - | 452,590 |
| 1,834,976 | - | 64,176 |
| 420,602 | - | 420,602 |
| 824,491 | - | 435,791 |
| 700,819 | - | 257,219 |
| 10,644,868 | - | (9,839) |
| 995,419 | - | 571,419 |
| 73,782,516 | - | 3,140,120 |
| 2,422,679 | 10,200 | 555,623 |
| 9,271,878 | - | 381,849 |
| 33,148,135 | 257,507 | 2,297 |
| 6,270,281 | 51,297 | 557,698 |
| 829,361 | 925 | 61,500 |
| 2,200,632 | 4,022 | 17,929 |
| 3,282,202 | - | 26,234 |
| 1,788,418 | 78,300 | 306,258 |
| 1,426,649 | - | 781 |
| 701,620 | - | 266,119 |
| 2,598,170 | - | - |
| 1,489,799 | - | 4,662 |
| 65,429,824 | 402,251 | 2,180,950 |
| 8,352,692 | (402,251) | 5,321,070 |
| 40,441 | - | 40,441 |
| 1,064,324 | - | 124,324 |
| (5,868,203) | - | - |
| (4,763,438) | - | 164,765 |
| 3,589,254 | (402,251) | 5,485,835 |
| 5,266,728 | - | - |
| \$ 8,855,982 | \$ (402,251) | \$ 5,485,835 |

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

Municipal Law requires the adoption of a balanced budget that is approved by the Board of Selectmen (the "Board"). The Board presents an annual budget to the representative Town meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The representative town meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires a vote at a special Town meeting.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Town meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget authorized approximately \$70,136,000 in appropriations and other amounts to be raised. During fiscal year 2006, the Town meeting also approved supplemental appropriations totaling approximately \$3,700,000.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2006, is presented below:

| | | |
|---|----|-----------|
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - budgetary basis..... | \$ | 3,589,254 |
|---|----|-----------|

Perspective difference:

| | | |
|---|--|--------|
| Health Claims Fund recorded in the General Fund for GAAP..... | | 13,489 |
|---|--|--------|

Basis of accounting differences:

| | |
|---|--------------------|
| Net difference in recognition of expenditures..... | 73,592 |
| Net change in recording tax refunds payable..... | (3,000) |
| Net change in recording 60-day receipts accrual..... | (140,458) |
| Recognition of revenue for on-behalf payments..... | 3,800,000 |
| Recognition of expenditures for on-behalf payemnts..... | <u>(3,800,000)</u> |

| | | |
|--|----|------------------|
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - GAAP basis..... | \$ | <u>3,532,877</u> |
|--|----|------------------|

