

TOWN OF BLANDFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balances	4
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	5
Proprietary Funds:	
Statement of Net Assets	6
Statement of Revenues, Expenses, and Changes in Fund Net Assets	7
Statement of Cash Flows	8
Fiduciary Funds:	
Statement of Fiduciary Net Assets	9
Notes to the Financial Statements	10

INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Blandford, Massachusetts

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Town of Blandford, Massachusetts, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Town of Blandford's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental or business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Town's governmental activities are not reasonably determinable. As discussed in Note 2 to the financial statements, management has not recorded certain capital assets in business-type activities and, accordingly, has not recorded depreciation

expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the business-type activities is not reasonably determinable.

In our opinion, because of matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental or business-type activities of the Town of Blandford as of June 30, 2005 or the changes in its financial position or cash flows, where applicable, for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund, the aggregate remaining fund information, the respective changes in financial position, thereof, and the respective budgetary comparison for the general fund of the Town of Blandford as of June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The Town has not presented a management's discussion and analysis that the *Governmental Accounting Standards Board* has determined necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2007 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Greenfield, Massachusetts
May 15, 2007

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

ASSETS

	General	Local Road Improvements	Walson Dean Park Trust	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 511,758	\$ -	\$ -	\$ 231,515	\$ 843,304
Investments	-	-	344,259	356,863	701,142
Receivables:					
Property taxes	402,252	-	-	-	402,252
Excises	44,252	-	-	-	44,252
Intergovernmental	-	303,597	-	-	303,597
Departmental and other	471	-	-	-	471
Due from other funds	336,272	-	-	-	336,272
TOTAL ASSETS	\$ 1,365,092	\$ 303,597	\$ 344,259	\$ 588,395	\$ 2,631,348

LIABILITIES AND FUND BALANCES

Liabilities:					
Warrants payable	\$ 54,757	\$ -	\$ -	\$ -	\$ 54,757
Accrued payroll	4,330	-	-	-	4,190
Deferred revenues	447,032	-	-	-	447,032
Tax refunds payable	6,820	-	-	-	6,820
Due to other funds	-	336,272	-	-	336,272
Other liabilities	2,058	-	-	-	2,058
TOTAL LIABILITIES	527,757	336,272	-	-	864,029
Fund Balances:					
Reserved for:					
Encumbrances	1,483	-	-	-	1,483
Expenditures	9,000	-	-	-	5,000
Perpetual (non-expendable) permanent funds	-	-	344,259	327,967	672,226
Unreserved:					
Undesignated, reported in:					
General fund	850,812	-	-	-	800,812
Special revenue funds	-	(32,675)	-	95,146	52,471
Permanent funds	-	-	-	-75,265	175,285
TOTAL FUND BALANCES	867,295	(32,675)	344,259	588,395	1,767,274
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,395,052	\$ 303,597	\$ 344,259	\$ 508,390	\$ 2,651,346

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2005

	General	Local Road Improvements	Watson Dean Park Trust	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 1,336,839	\$ -	\$ -	\$ -	\$ 1,336,839
Excises	155,597	-	-	-	155,597
Penalties, interest and other taxes	258,342	-	-	-	258,342
Charges for services	33,100	-	-	4,112	37,212
Intergovernmental	142,660	303,597	-	55,258	501,513
Licenses and permits	12,403	-	-	-	12,403
Fines and forfeitures	8,298	-	-	-	8,298
Investment income (loss)	7,342	-	12,029	-	19,371
Miscellaneous	20,023	-	-	-	20,023
Total Revenues	<u>1,974,592</u>	<u>303,597</u>	<u>12,029</u>	<u>59,368</u>	<u>2,349,586</u>
Expenditures:					
Current:					
General government	182,927	-	-	4,932	187,859
Public safety	58,824	-	-	54,485	93,309
Education	1,200,749	-	-	-	1,200,749
Public works	320,261	315,597	-	4,703	640,721
Health and human services	11,813	-	-	3,208	15,021
Culture and recreation	32,058	-	-	10,984	42,852
Employee benefits	77,593	-	-	-	77,593
Debt service	44,202	-	-	-	44,202
Intergovernmental	9,379	-	-	-	9,379
Total Expenditures	<u>1,917,815</u>	<u>315,597</u>	<u>-</u>	<u>67,072</u>	<u>2,291,485</u>
Excess (deficiency) of revenues over expenditures	56,776	(12,100)	12,029	1,396	58,101
Other Financing Sources (Uses):					
Transfers in:	30,419	-	-	10,000	40,419
Transfers out:	(10,000)	-	-	(20,000)	(30,000)
Total Other Financing Sources (Uses)	<u>20,419</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>10,419</u>
Change in fund equity	77,194	(12,100)	12,029	(8,604)	68,519
Fund Equity, at Beginning of Year, as reclassified	<u>790,101</u>	<u>(20,575)</u>	<u>532,230</u>	<u>597,902</u>	<u>1,688,758</u>
Fund Equity, at End of Year	<u>\$ 867,295</u>	<u>\$ (32,575)</u>	<u>\$ 344,259</u>	<u>\$ 589,398</u>	<u>\$ 1,767,277</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts				Variance with
	Original Budget	Final Budget	Actual Amounts		Final Budget Positive (Negative)
Revenues and Other Sources:					
Taxes	\$ 1,399,744	\$ 1,399,744	\$ 1,399,744	\$	-
Excise	121,000	121,000	155,597		34,597
Penalties, interest and other taxes	127,300	127,300	258,342		131,042
Charges for services	51,300	51,300	33,100		(18,200)
Intergovernmental	146,331	146,331	142,660		(3,671)
Licenses and permits	11,100	11,100	12,403		1,303
Fines and forfeits	6,500	6,500	8,286		1,786
Investment income	4,000	4,000	7,342		3,342
Miscellaneous	14,369	14,369	20,023		5,654
Transfers in	30,418	30,418	30,418		-
Other sources	78,025	78,025	78,025		-
Total Revenues and Other Sources	1,990,087	1,990,087	2,145,940		155,853
Expenditures and Other Uses:					
General government	168,678	168,678	160,451		28,227
Public safety	60,844	60,844	58,609		2,235
Education	1,269,646	1,269,646	1,200,749		68,897
Public works	276,943	276,943	320,261		(43,318)
Health and human services	14,171	14,171	10,888		3,283
Culture and recreation	36,080	36,080	32,468		3,612
Debt service	43,083	43,083	44,202		(1,119)
Intergovernmental	9,471	9,471	9,379		92
Employee benefits	81,191	81,191	77,593		3,598
Transfers out	10,000	10,000	10,000		-
Total Expenditures and Other Uses	1,990,087	1,990,087	1,924,600		85,487
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 221,340		\$ 221,340

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Business-Type Activities <u>Water Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 249,423
User fees receivable	<u>114,440</u>
Total current assets	363,863
Noncurrent:	
Capital assets, net of accumulated depreciation	<u>2,547,225</u>
Total noncurrent assets	<u>2,547,225</u>
TOTAL ASSETS	2,911,088
<u>LIABILITIES</u>	
Current:	
Warrants payable	2,278
Accounts payable	71,293
Accrued payroll	355
Accrued interest	35,029
Refund due	60,000
Other liabilities	105
Current portion of long-term liabilities:	
Bonds payable	<u>47,100</u>
Total current liabilities	216,160
Noncurrent:	
Bonds payable, net of current portion	<u>2,500,125</u>
Total noncurrent liabilities	<u>2,500,125</u>
TOTAL LIABILITIES	2,716,285
<u>NET ASSETS</u>	
Reserve for capital project	(79,356)
Unrestricted	<u>274,159</u>
TOTAL NET ASSETS	\$ <u>194,803</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities <u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ <u>336,869</u>
Total Operating Revenues	336,869
Operating Expenses:	
Salaries and wages	18,653
Purchased services/materials and supplies	127,256
Depreciation	<u>34,243</u>
Total Operating Expenses	<u>180,152</u>
Operating Income	156,717
Nonoperating Revenues (Expenses):	
Investment income	286
Interest expense	(102,783)
Capital outlay	(731,132)
Intergovernmental revenue - capita.	<u>244,955</u>
Total Nonoperating Revenues (Expenses), Net	<u>(588,674)</u>
Income Before Other Financing Sources (Uses)	(431,957)
Other Financing Sources (Uses)	
Transfer out	(10,418)
Bond proceeds	<u>1,288,697</u>
Change in Net Assets	846,322
Net Assets at Beginning of Year	<u>(651,519)</u>
Net Assets at End of Year	\$ <u><u>194,803</u></u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Business-Type Activities</u>
	<u>Water Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 330,200
Payments to vendors and employees	<u>(48,968)</u>
Net Cash Provided By Operating Activities	281,232
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(10,418)</u>
Net Cash (Used For) Noncapital Financing Activities	(10,418)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	1,288,697
Acquisition and construction of capital assets	(731,132)
Principal payments on bonds and notes	(1,034,243)
Interest expense	(71,303)
Intergovernmental subsidy	<u>244,955</u>
Net Cash (Used For) Capital and Related Financing Activities	(303,026)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>286</u>
Net Cash Provided By Investing Activities	<u>286</u>
Net Change in Cash and Short-Term Investments	(31,926)
Cash and Short Term Investments, Beginning of Year	<u>281,349</u>
Cash and Short Term Investments, End of Year	<u>\$ 249,423</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 156,717
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	34,243
Changes in assets and liabilities:	
User fees	(6,669)
Warrants payable	36,481
Accrued payroll and withholdings	355
Other liabilities	<u>60,105</u>
Net Cash Provided By Operating Activities	<u>\$ 281,232</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	Agency Funds
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>5,183</u>
Total Assets	5,183
<u>LIABILITIES</u>	
Other liabilities	<u>5,183</u>
Total Liabilities	\$ <u><u>5,183</u></u>

See notes to financial statements.

Town of Blandford, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Blandford (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units, except as indicated in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2005, it was determined that no entities met the required GASB-14 criteria of component units.

B. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Local Road Improvements* accounts for State aid made available to municipalities under Massachusetts General Laws Chapter 90, Section 34 for local road construction, preservation and improvement projects and Massachusetts General Laws Chapter 637 (STRAP Grant) for local projects authorized under this Act.
- The *Watson Dean Park Trust fund* is a perpetual permanent fund established for the accounting of financial resources of the trust.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

The government reports the water enterprise fund as a major proprietary fund.

D. Cash and Short-Term Investments

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

funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income. For purpose of the statement of cash flows, the proprietary fund considers investments with original maturities of three months or less to be short-term investments.

E. Investments

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2005 tax levy reflected an excess capacity of \$ 651.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds" (i.e., the current portion of interfund loans).

H. Long-Term Obligations

In the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

I. Fund Equity

In the fund financial statements, governmental funds report reservations

of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

J. Use of Estimates

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

2. Departures from Generally Accepted Accounting Principles

The significant departures of the financial statements from generally accepted accounting principles are as follows:

- Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United State of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Town's governmental activities are not reasonably determinable.
- Management has not recorded certain capital assets in business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets and expenses of the business-type activities is not reasonably determinable.
- The Town has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

At the annual town meeting, the Finance Committee presents an oper-

ating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted. Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 1,974,592	\$ 1,917,816
Other financing sources/uses (GAAP basis)	30,418	10,000
Adjust tax revenue to accrual basis	62,905	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,699)
Add end of year appropriation carryforwards to expenditures	-	1,483
Recognize use of fund balance as funding source	<u>78,025</u>	<u>-</u>
Budgetary basis	\$ <u>2,145,940</u>	\$ <u>1,924,600</u>

D. Excess of Expenditures Over Appropriation

Expenditures exceeding appropriations for the current fiscal year were as follows:

Public Works - Snow and Ice	\$ 63,965
-----------------------------	-----------

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2005:

Special Revenue Funds:	
Local Road Improvements	\$ (32,675)
Turnpike Grant	(24,795)

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

4. Cash and Short-Term Investments

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

unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

As of June 30, 2005, \$ 361,789 of the Town's bank balance of \$ 1,263,777 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

5. Investments

A. Credit Risk

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

The Town's investments of \$ 701,142, as of June 30, 2005, are comprised of corporate equities (\$ 441,888), certificates of deposit (\$ 120,359) and mutual funds (\$ 138,895), which are not subject to credit rating.

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

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

Citizens Bank	\$ 61,996
Citigroup Common Stock	83,769
General Electric Corporation Common Stock	79,834

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities in Years) Less Than 1</u>
Certificates of deposit	\$ 120,359	\$ -	\$ 120,359
Mutual funds	138,895	138,895	-
Corporate Equities	<u>441,888</u>	<u>441,888</u>	<u>-</u>
Total	\$ <u>701,142</u>	\$ <u>580,783</u>	\$ <u>120,359</u>

E. Foreign Currency Risk

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

6. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

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

Taxes receivable at June 30, 2005 consist of the following (in thousands):

Real Estate		
2005	\$ 48	
2004	80	
2003	63	
2002	16	
2001	13	
Prior	<u>16</u>	256
Personal Property		
2005	10	
2004	11	
2003	3	
Prior	<u>4</u>	28
Tax Liens		66
Tax Possessions		<u>52</u>
Total		\$ <u>402</u>

7. **Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2005.

8. **Interfund Fund Receivables/Payables**

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2005 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 336,272	\$ -
Special Revenue Funds	<u>-</u>	<u>336,272</u>
Total	\$ <u>336,272</u>	\$ <u>336,272</u>

9. **Warrants and Accounts Payable**

Warrants payable represent 2005 expenditures paid by July 15, 2005 as permitted by law. Accounts payable represent additional 2005 expenditures paid after July 15, 2005.

10. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2005 receivable balances.

11. Tax Refunds Payable/Refunds Due

These balances consist of, in the general fund, an estimate of refunds due to property taxpayers for potential abatements which are currently pending with the State Appellate Tax Board, and in the propriety fund refunds due to the Massachusetts Turnpike Authority for water use abatement.

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and proprietary fund purposes. General obligation bonds currently outstanding are as follows:

<u>Governmental Funds:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2005</u>
<u>Notes Payable:</u>			
Dump truck *	2005	1.52	\$ 74,499
Total Notes Payable			74,499
<u>Bonds Payable:</u>			
Landfill capping	5/23/24	5.95	197,600
Total Bonds Payable			197,600
Total Governmental Funds			\$ 272,099
<u>Business-Type Activities:</u>			
<u>Bonds Payable:</u>			
Water Bond - FmHA	6/4/25	4.875	\$ 105,878
Water Bond - FmHA	6/8/42	4.375	1,152,650
Water Bond - FmHA	12/16/04	4.50	1,288,697
Total Bonds Payable - Business-Type Activities			\$ 2,547,225
Total All Debt			\$ 2,819,324

* These borrowings are a combination of several short-term notes intended to finance these projects over a period of five years. This is being accomplished by rolling over a series of short-term notes for lesser amounts each year. The interest rates reported are the interest rates for the short-term notes issued in fiscal year 2005 and due in fiscal year 2006.

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2005 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 35,400	\$ 11,757	\$ 47,157
2007	35,400	11,138	46,538
2008	34,899	10,520	45,419
2009	10,400	9,901	20,301
2010	10,400	9,282	19,682
2011 - 2015	52,000	37,128	89,128
2016 - 2020	52,000	21,658	73,658
2021 - 2025	<u>41,600</u>	<u>6,186</u>	<u>47,786</u>
Total	\$ <u>272,099</u>	\$ <u>117,570</u>	\$ <u>389,669</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 47,100	\$ 113,582	\$ 160,682
2007	47,829	111,489	159,318
2008	48,593	109,363	157,956
2009	49,391	107,202	156,593
2010	50,226	105,004	155,230
2011 - 2015	265,052	490,653	755,705
2016 - 2020	292,468	429,162	721,630
2021 - 2025	326,904	360,788	687,692
Thereafter	<u>1,419,662</u>	<u>661,137</u>	<u>2,080,799</u>
Total	\$ <u>2,547,225</u>	\$ <u>2,188,380</u>	\$ <u>5,035,605</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2005, the following changes occurred in long-term liabilities:

	<u>Total Balance 7/1/04</u>	<u>Addl.</u>	<u>Reduc.</u>	<u>Total Balance 6/30/05</u>	<u>Less Current Portion</u>	<u>Equals Long Term Portion 6/30/05</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 208,000	\$ -	\$ (10,400)	\$ 197,600	\$ (10,400)	\$ 187,200
Notes payable	<u>94,499</u>	-	<u>(20,000)</u>	<u>74,499</u>	<u>(25,000)</u>	<u>49,499</u>
Totals	\$ <u>302,499</u>	\$ -	\$ <u>(30,400)</u>	\$ <u>272,099</u>	\$ <u>(35,400)</u>	\$ <u>236,699</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ <u>1,292,771</u>	\$ <u>1,268,697</u>	\$ <u>(34,243)</u>	\$ <u>2,547,225</u>	\$ <u>(47,100)</u>	\$ <u>2,500,125</u>

13. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2005:

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

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

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

14. General Fund Undesignated Fund Balance

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

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such over expenditures, however, must be funded in the subsequent year's tax rate.

Massachusetts general laws allow municipalities to adopt an alternative debt service funding schedule for projects subject to debt exclusion votes. These "reserve balances" carry forward from year to year and must be appropriated only for debt service costs related to the debt exclusion project.

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

GAAP basis balance	\$ 860,812
Appropriation deficits	63,965
Reserve for debt service	(206,972)
Statutory (UMAS) Balance	\$ <u>717,805</u>

15. Subsequent Events

Debt

Subsequent to June 30, 2005, the Town has incurred the following additional debt:

<u>Temporary Debt:</u>	<u>Amount</u>	<u>Interest Rate(s) %</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	1,000,000	3.60	02/15/06	06/20/06
State aid anticipation note	250,000	3.99	04/06/06	06/26/06
State aid anticipation note	250,000	4.19	05/23/06	08/23/06
Grant anticipation note	385,000	4.19	05/23/06	06/29/06
Bond anticipation note	1,300,000	3.83	06/20/06	08/30/06
Bond anticipation note	882,000	3.85	01/10/07	05/01/07
Bond anticipation note	882,000	3.85	05/01/07	08/14/07

16. Commitments and Contingencies

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

Water System Improvements - A consent order was issued by the State Department of Environmental Protection effective May 10, 2001 requiring the Town to make certain water system improvements. The Town authorized appropriations of \$ 6,531,060 in November 2002 and an additional \$ 1,600,000 in August 2005 for this project. The Town applied for a combination grant and loan from the United States Department of Agriculture Rural Development Agency (RDA). As of August 28, 2006, the Town had received approval for phases one, two and three of the project funding, which consist of loans of \$ 3,773,123 and grants of \$ 2,757,937.

The total expected funding will be \$ 4,655,123 in loans and \$ 3,475,937 in grants, for a total project cost of \$ 8,131,060. Expenditures incurred to date, as of June 30, 2005, were \$ 3,771,056.

The Town estimates completion of the project and subsequent compliance with the consent order to be as follows:

- Phase One - Substantially Complete June 2004
- Phase Two - Substantially Complete December 2006
- Phase Three - Substantially Complete July 2007

17. Pension Plan

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

A. Plan Description

The Town contributes to the Hampden County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Hampden County Retirement System, Hall of Justice, 50 State Street, Springfield, MA 01102.

B. 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 remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. Town's contributions to the System for the years ended June 30, 2005, 2004 and 2003 were \$ 19,848, \$ 19,178 and \$ 12,279, respectively, which were equal to its annual required contributions for each of these years.

18. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

19. Beginning Fund Balance Reclassification

The beginning fund balances for governmental funds have be reclassified as follows:

	Fund Equity June 30, 2004 as previously reported)	<u>Reclassification</u>	Fund Equity June 30, 2004 <u>(as restated)</u>
Susan Tiffany Cemetery Trust fund	\$ 222,295	\$ (222,295)	\$ -
Chapter 90 Local Road Program	-	(20,575)	(20,575)
Nonmajor funds	<u>354,132</u>	<u>242,870</u>	<u>597,002</u>
Total	\$ <u>576,427</u>	\$ <u>-</u>	\$ <u>576,427</u>