

TOWN OF BLANDFORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

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



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
(413) 773-5405 • Fax (413) 773-7304
www.melansonheath.com

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, 2006, 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, 2006 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, 2006 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.

Melanson Heath & Company, P.C.

Greenfield, Massachusetts
May 15, 2007

TOWN OF BLANDFORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

ASSETS	General	Local Road Improvements	Watson Dean Park Trust	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 234,664	-	-	\$ 233,035	\$ 467,699
Investments	-	-	360,487	394,914	755,401
Receivables:					
Property taxes	417,069	-	-	-	417,069
Excises	55,272	-	-	-	55,272
Intergovernmental	-	779,412	-	246,400	1,025,812
Departmental and other	471	-	-	-	471
Due from other funds	411,707	-	-	-	411,707
TOTAL ASSETS	\$ 1,119,183	\$ 779,412	\$ 360,487	\$ 874,349	\$ 3,133,431

LIABILITIES AND FUND BALANCES

Liabilities:					
Warrants payable	\$ 39,919	-	-	-	\$ 39,919
Accrued payroll	3,270	-	-	-	3,270
Deferred revenues	472,812	255,407	-	-	728,219
Notes payable	-	250,000	-	-	250,000
Tax refunds payable	13,608	-	-	-	13,608
Due to other funds	-	280,758	-	130,949	411,707
Other liabilities	2,958	-	-	-	2,958
TOTAL LIABILITIES	532,567	786,165	-	130,949	1,449,681
Fund Balances:					
Reserved for:					
Encumbrances	8,404	-	-	-	8,404
Expenditures	64,190	-	-	-	64,190
Perpetual (nonexpendable) permanent funds	-	-	360,487	333,619	694,106
Unreserved:					
Undesignated, reported in:					
General fund	514,022	-	-	-	514,022
Special revenue funds	-	(6,753)	-	115,451	108,698
Permanent funds	-	-	-	294,330	294,330
TOTAL FUND BALANCES	586,616	(6,753)	360,487	743,400	1,683,750
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,119,183	\$ 779,412	\$ 360,487	\$ 874,349	\$ 3,133,431

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, 2006

	<u>General</u>	<u>Local Road Improvements</u>	<u>Watson Dean Park Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 1,401,078	-	-	-	\$ 1,401,078
Excises	124,920	-	-	-	124,920
Penalties, interest and other taxes	160,913	-	-	-	160,913
Charges for services	60,226	-	-	15,478	75,704
Intergovernmental	163,718	512,431	-	308,323	984,472
Licenses and permits	11,581	-	-	-	11,581
Fines and forfeitures	7,859	-	-	-	7,859
Investment income (loss)	15,436	-	16,228	-	31,664
Miscellaneous	9,948	-	-	-	9,948
Total Revenues	<u>1,955,679</u>	<u>512,431</u>	<u>16,228</u>	<u>323,801</u>	<u>2,808,139</u>
Expenditures:					
Current:					
General government	173,903	-	-	246,400	420,303
Public safety	57,871	-	-	13,930	71,801
Education	1,264,155	-	-	-	1,264,155
Public works	348,694	524,005	-	4,631	878,330
Health and human services	20,053	-	-	5,804	25,857
Culture and recreation	34,780	-	-	4,786	39,566
Employee benefits	66,189	-	-	-	66,189
Debt service	102,219	-	-	-	102,219
Intergovernmental	9,767	-	-	-	9,767
Miscellaneous	13,479	-	-	-	13,479
Total Expenditures	<u>2,092,110</u>	<u>524,005</u>	<u>-</u>	<u>275,551</u>	<u>2,891,666</u>
Excess (deficiency) of revenues over expenditures	(136,431)	(11,574)	16,228	48,250	(83,527)
Other Financing Sources (Uses):					
Transfers in	-	44,248	-	106,752	151,000
Transfers out	(144,248)	(6,752)	-	-	(151,000)
Total Other Financing Sources (Uses)	<u>(144,248)</u>	<u>37,496</u>	<u>-</u>	<u>106,752</u>	<u>-</u>
Change in fund equity	(280,679)	25,922	16,228	155,002	(83,527)
Fund Equity, at Beginning of Year	<u>867,295</u>	<u>(32,675)</u>	<u>344,259</u>	<u>588,398</u>	<u>1,767,277</u>
Fund Equity, at End of Year	<u>\$ 586,616</u>	<u>\$ (6,753)</u>	<u>\$ 360,487</u>	<u>\$ 743,400</u>	<u>\$ 1,683,750</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, 2006

	Budgeted Amounts			Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget			
Revenues and Other Sources:					
Taxes	\$ 1,439,954	\$ 1,439,954		\$ 1,439,954	-
Excise	184,000	184,000		124,920	(59,080)
Penalties, interest and other taxes	129,000	129,000		160,913	31,913
Charges for services	20,000	20,000		60,226	40,226
Intergovernmental	168,404	168,404		163,718	(4,686)
Licenses and permits	6,000	6,000		11,581	5,581
Fines and forfeits	5,000	5,000		7,859	2,859
Investment income	3,500	3,500		15,436	11,936
Miscellaneous	-	-		9,948	9,948
Other sources	121,072	446,551		446,551	-
Total Revenues and Other Sources	2,076,930	2,402,409		2,441,106	38,697
Expenditures and Other Uses:					
General government	170,652	203,994		175,687	28,307
Public safety	62,992	63,821		57,256	6,565
Education	1,311,345	1,311,345		1,264,155	47,190
Public works	244,294	342,628		356,044	(13,416)
Health and human services	22,450	22,450		20,323	2,127
Culture and recreation	36,945	36,945		33,913	3,032
Debt service	21,018	96,656		102,219	(5,563)
Intergovernmental	10,187	10,187		9,767	420
Employee benefits	76,328	80,185		66,189	13,996
Miscellaneous	-	13,479		13,479	-
Transfers out	44,248	144,248		144,248	-
Other uses	76,471	76,471		76,471	-
Total Expenditures and Other Uses	2,076,930	2,402,409		2,319,751	82,658
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -		\$ 121,355	\$ 121,355

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities <u>Water Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 292,498
User fees receivable	<u>136,620</u>
Total current assets	429,118
Noncurrent:	
Capital assets, net of accumulated depreciation	<u>2,500,125</u>
Total noncurrent assets	<u>2,500,125</u>
TOTAL ASSETS	2,929,243
<u>LIABILITIES</u>	
Current:	
Warrants payable	7,409
Accounts payable	150,121
Accrued payroll	933
Accrued interest	34,622
Refund due	60,000
Other liabilities	1,055
Notes payable	1,300,000
Current portion of long-term liabilities: Bonds payable	<u>47,829</u>
Total current liabilities	1,601,969
Noncurrent:	
Bonds payable, net of current portion	<u>2,452,296</u>
Total noncurrent liabilities	<u>2,452,296</u>
TOTAL LIABILITIES	4,054,265
<u>NET ASSETS</u>	
Reserve for capital project	(1,437,740)
Unrestricted	<u>312,718</u>
TOTAL NET ASSETS	\$ <u>(1,125,022)</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, 2006

	Business-Type Activities <u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ <u>352,928</u>
Total Operating Revenues	352,928
Operating Expenses:	
Salaries and wages	40,283
Purchased services/materials and supplies	197,358
Depreciation	<u>47,100</u>
Total Operating Expenses	<u>284,741</u>
Operating Income	68,187
Nonoperating Revenues (Expenses):	
Investment income	2,426
Interest expense	(125,674)
Capital outlay	(2,101,046)
Intergovernmental revenue - capital	<u>836,282</u>
Total Nonoperating Revenues (Expenses), Net	<u>(1,388,012)</u>
Change in Net Assets	(1,319,825)
Net Assets at Beginning of Year	<u>194,803</u>
Net Assets at End of Year	\$ <u><u>(1,125,022)</u></u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities <u>Water Fund</u>
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 330,748
Payments to vendors and employees	<u>(152,154)</u>
Net Cash Provided By Operating Activities	178,594
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Proceeds from issuance of bonds and notes	1,300,000
Acquisition and construction of capital assets	(2,101,046)
Principal payments on bonds and notes	(47,100)
Interest expense	(126,081)
Intergovernmental subsidy	<u>836,282</u>
Net Cash (Used For) Capital and Related Financing Activities	(137,945)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>2,426</u>
Net Cash Provided By Investing Activities	<u>2,426</u>
Net Change in Cash and Short-Term Investments	43,075
Cash and Short Term Investments, Beginning of Year	<u>249,423</u>
Cash and Short Term Investments, End of Year	<u>\$ 292,498</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 68,187
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Depreciation	47,100
Changes in assets and liabilities:	
User fees	(22,180)
Warrants payable	83,959
Accrued payroll and withholdings	578
Other liabilities	<u>950</u>
Net Cash Provided By Operating Activities	<u>\$ 178,594</u>

See notes to financial statements.

TOWN OF BLANDFORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ <u>8,785</u>
Total Assets	8,785
<u>LIABILITIES</u>	
Other liabilities	<u>8,785</u>
Total Liabilities	\$ <u><u>8,785</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 2006, 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 non-operating 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 2006 tax levy reflected an excess capacity of \$ 1,342.

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 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.
- 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 operating 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 fore-seen 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)	\$ 1,955,679	\$ 2,092,110
Other financing sources/uses (GAAP basis)	-	144,248
Adjust tax revenue to accrual basis	38,876	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,482)
Add end of year appropriation carryforwards to expenditures	-	8,404
Recognize use of fund balance as funding source	446,551	-
Other non-GAAP uses	-	76,471
Budgetary basis	<u>\$ 2,441,106</u>	<u>\$ 2,319,751</u>

D. Excess of Expenditures Over Appropriation

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

Snow and Ice	\$ 12,808
Various Accounts	\$ 11,232

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2006:

Special Revenue Funds:	
Local Road Improvements	\$ (6,753)

The deficit in this fund will be eliminated through future departmental revenues and transfers from other funds.

Water Enterprise Fund	\$ (1,125,022)
-----------------------	----------------

The deficit in this fund is expected to be eliminated through future United States Department of Agriculture Rural Development Agency (RDA) grants and loans (see footnote 17).

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, 2006, \$ 845,452 of the Town's bank balance of \$ 1,406,242 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 Chap-

ter 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 \$ 755,401, as of June 30, 2006, are comprised of corporate equities (\$ 472,196), certificate of deposit (\$ 150,801) and mutual funds (\$ 132,404), 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	87,429
General Electric Corporation Common Stock	75,940

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	\$ 150,801	\$ -	\$ 150,801
Mutual funds	132,404	132,404	-
Corporate Equities	472,196	472,196	-
Total	<u>\$ 755,401</u>	<u>\$ 604,600</u>	<u>\$ 150,801</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, 2006 consist of the following (in thousands):

Real Estate			
2006	\$	95	
2005		18	
2004		59	
2003		65	
2002		12	
2001		7	
Prior		<u>11</u>	
			267
Personal Property			
2006		7	
2005		8	
2004		10	
2003		3	
Prior		<u>4</u>	
			32
Tax Liens			66
Tax Possessions			<u>52</u>
Total	\$		<u><u>417</u></u>

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006.

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, 2006 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 411,707	\$ -
Special Revenue Funds	-	411,707
Total	<u>\$ 411,707</u>	<u>\$ 411,707</u>

9. Warrants and Accounts Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

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, 2006 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. Notes Payable

The Town had the following notes outstanding at June 30, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
<u>Governmental Funds:</u>				
State anticipation	4.19%	5/23/2006	8/23/2006	\$ <u>250,000</u>
<u>Business-type Activities:</u>				
State anticipation	3.83%	6/20/2006	8/30/2006	\$ <u>1,300,000</u>

The following summarizes activity in notes payable during fiscal year 2006:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
<u>Governmental Funds:</u>				
State anticipation	\$ -	\$ 885,000	\$ 635,000	\$ <u>250,000</u>
<u>Business-type Activities:</u>				
State anticipation	\$ -	\$ 2,300,000	\$ 1,000,000	\$ <u>1,300,000</u>

13. 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:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2006
<u>Governmental Funds:</u>			
Bonds Payable:			
Landfill capping	05/23/24	5.95	<u>187,200</u>
Total Governmental Funds			187,200
<u>Business-Type Activities:</u>			
Bonds Payable:			
Water Bond - FmHA	06/04/25	4.875	\$ 102,638
Water Bond - FmHA	06/08/42	4.375	1,121,497
Water Bond - FmHA	12/16/04	4.5	<u>1,275,990</u>
Total Bonds Payable - Business-Type Activities			\$ <u>2,500,125</u>
Total All Debt			\$ <u>2,687,325</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,400	\$ 11,138	\$ 21,538
2008	10,400	10,520	20,920
2009	10,400	9,901	20,301
2010	10,400	9,282	19,682
2011	10,400	8,663	19,063
2012 - 2016	52,000	37,128	89,128
2017 - 2021	52,000	21,658	73,658
2022 - 2026	<u>31,200</u>	<u>3,711</u>	<u>34,911</u>
Total	\$ <u>187,200</u>	\$ <u>112,001</u>	\$ <u>299,201</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	51,099	102,768	153,867
2012 - 2016	270,055	478,835	748,890
2017 - 2021	298,727	416,088	714,815
2022 - 2026	326,341	346,135	672,476
Thereafter	1,357,864	598,006	1,955,870
Total	\$ <u>2,500,125</u>	\$ <u>2,374,890</u>	\$ <u>4,875,015</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total</u>			<u>Total</u>	<u>Less</u>	<u>Equals</u>
	<u>Balance</u>			<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
	<u>July 1, 2005</u>	<u>Additional</u>	<u>Reduction</u>	<u>June 30, 2006</u>	<u>Portion</u>	<u>June 30, 2006</u>
Governmental Activities						
Bonds payable	\$ 197,600	\$ -	\$ (10,400)	\$ 187,200	\$ (10,400)	\$ 176,800
Notes payable	74,499	-	(74,499)	-	-	-
Totals	\$ <u>272,099</u>	\$ -	\$ <u>(84,899)</u>	\$ <u>187,200</u>	\$ <u>(10,400)</u>	\$ <u>176,800</u>
Business-Type Activities						
Bonds payable	\$ <u>2,547,225</u>	\$ -	\$ <u>(47,100)</u>	\$ <u>2,500,125</u>	\$ <u>(47,829)</u>	\$ <u>2,452,296</u>

14. 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, 2006:

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.

15. 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	\$ 514,022
Appropriation deficits	24,040
Reserve for debt service	<u>(90,902)</u>
Statutory (UMAS) Balance	<u>\$ 447,160</u>

16. Subsequent Events

Debt

Subsequent to June 30, 2006, 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	\$ 882,000	3.85	01/10/07	05/01/07
Bond anticipation note	\$ 882,000	3.85	05/01/07	06/14/07

17. 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, 2006 were \$ 5,950,930.

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

18. 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 em-

ployers 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, 2006, and 2005 were \$ 21,685, and \$ 19,848, respectively, which were equal to its annual required contributions for each of these years.

19. 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.