

**TOWN OF MIDDLEBOROUGH,  
MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2005**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY LETTER</b>	<b>1</b>
1. Establish Formal Departmental Receipt Procedures (Reportable Condition)	3
2. Establish Accounting and Administrative Policies and Procedures	3
3. Revise Chart of Accounts	4
4. Coordinate Cash and Receivable Reconciliations	4
5. Resolve Legal/Accounting Conflicts	5
6. Establish Formal General Ledger Reconciliation Procedures	5
7. Maintain Capital Asset Records	6
8. Improve Compensated Absences Accounting	6
9. Maintain Spreadsheet for Appropriations	6
10. Reconcile Student Activity Funds	7
11. Consistently Apply Indirect Costs	7
12. Monitor Revenue Budget	7
13. Prepare for Implementation of GASB Statement 45	8
14. Other Issues	8



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112  
Andover, MA 01810-1096  
(978) 749-0005 • Fax (978) 749-0006  
[www.melansonheath.com](http://www.melansonheath.com)

To the Board of Selectmen  
Town of Middleborough, Massachusetts

We have audited the financial statements of the Town of Middleborough, Massachusetts as of and for the year ended June 30, 2005 and have issued our report thereon dated June 8, 2006. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluations are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The management of the Town of Middleborough, Massachusetts is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with required authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may still occur without being detected. Also, projection of any evaluation of the system to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design

or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize and report financial data in a manner that is consistent with the assertions of management in the financial statements. This issue is noted as a reportable condition in the table of contents and in the comment headings.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition above is a material weakness.

Our study and evaluation was not designed for the purpose of expressing an opinion on the internal accounting control and would not necessarily disclose all weaknesses in the system. However, as a result of our study and evaluation, and in an effort to be of assistance to the Town, we are submitting for your consideration comments and recommendations intended to improve operations and internal accounting control.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

This report is intended solely for the information and use of management and the Board of Selectmen and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
June 8, 2006

1. **Establish Formal Departmental Receipt Procedures (Reportable Condition)**

The Town has many departments that receive and process their own receipts. Many of these departments have small administrative staffs, often consisting of one or two employees. As a result, there is an inherent risk that these receipts may not be properly recorded, remitted, or safeguarded. In our review of the Building Department, Parks and Recreation Department, and Veteran's Department, we noted various weaknesses and inconsistencies.

We recommend that Town establish formal Town-wide departmental receipt policies and procedures. Formal policies and procedures would provide a framework for department heads to gauge whether their internal records are sufficient, or to provide an illustration of appropriate documentation should no internal records exist. In addition to stipulating the appropriate format of receipt records/logs, the policies and procedures should also address the establishment of audit trails, frequency of remittances to the Treasurer, and overnight security. We further recommend the Town Accountant perform periodic on-site testing of departmental receipts to assure compliance with Town policies, and that departments provide the Accounting Department with receipt turnover forms directly. This will result in improved oversight and reduce the risk of errors or irregularities from occurring and going undetected.

2. **Establish Accounting and Administrative Policies and Procedures**

The Town currently does not maintain formalized policies and procedures in the following administrative and accounting areas:

- travel and expense reimbursement
- use of cellular phones
- allowability of year end encumbrances
- use of purchase orders
- school student activity funds (MASBO accounting policies)
- vendor bill processing
- authorization and use of petty cash
- establishment and payments of long-term leases
- contract retention/filing

- authorization and use of credit cards
- payroll processing
- fraud prevention

We recommend the Town develop formal policies and procedures to provide departments with documented guidance over these administrative and accounting areas. This proactive measure should result in Town-wide consistency, fewer internal conflicts, and would minimize the risk of future irregularities or abuses occurring.

### **3. Revise Chart of Accounts**

The Town's current accounting chart of accounts tracks special revenue funds (e.g. grant, revolving, school lunch, highway) in a very summarized manner, and does not account for life to date cost of capital project funds. As a result, it is very difficult to control and track individual account balances. Also, it appears that various new accounts have been created over the years that are not properly linked in the system. This causes unusual posting errors to occur during the year.

We recommend the Town Accountant work with the existing computer software vendor to determine if changes can be made to the chart of accounts fund structure to facilitate improved fund reporting. We also recommend each account be evaluated to assure links have been properly established. This will improve the accuracy and efficiency of the Town's accounting records.

### **4. Coordinate Cash and Receivable Reconciliations**

Cash and receivable reconciliations to the Town's general ledger are currently performed by the Treasurer/Collector's office. Because these reconciliation are so critical to overall control of the Town's accounting records, they should be performed jointly by the Treasurer/Collector and Town Accountant. This helps assure that an adequate segregation of duties exists.

We recommend procedures be revised so that both departments are involved in the reconciliation of cash and receivable accounts to the general ledger. We further recommend that, on a quarterly basis, the Board of

Selectmen be provided with documented evidence that cash and receivable balances reconcile between the Town Accountant's general ledger and the Treasurer/Collector records. This will improve the accounting checks and balances, and documentation/accountability over critical reconciliations.

**5. Resolve Legal/Accounting Conflicts**

During fiscal years 2005/2006, the Town management had various internal disagreements on the proper interpretation of accounting and legal pronouncements. These issues include whether or not the Town Accountant has the legal rights and responsibilities of "Town Auditor" , whether cable TV and TIF revenues should be recorded as special revenue or general fund revenues, and whether a 2006 contract entered into for road and drainage, is appropriate to be charged to the September 23, 2002 STM article for engineering and construction of the Town's water system.

We recommend the Town request formal opinions from the Massachusetts Department of Revenue Bureau of Accounts to resolve these issues, and any similar conflicts that may occur in the future. This will help assure the Town is in compliance with Massachusetts General Laws.

**6. Establish Formal General Ledger Reconciliation Procedures**

The Town's general ledger was not consistently reconciled during the year for accounts such as betterments, gas/electric cash, Highway Chapter 90, debt, and grants. Monthly reconciliations are necessary to assure the accuracy of general ledger records, as well as to provide a means of checks and balances between the financial departments.

We recommend the Town Accountant establish formal procedures to reconcile all critical general ledger balances with the departments that maintain independent detailed records, on a regular monthly basis. This will provide additional assurance of the accuracy of the Town's internal financial reports, including monthly departmental budget reports, the balance sheet used for free cash certification, and the annual Schedule A report. It will also provide the necessary checks and balances to help assure that errors or irregularities are identified and corrected in a timely manner.

**7. Maintain Capital Asset Records**

The Town used an outside consultant to track capital asset/depreciation records through fiscal year 2004. In 2005, however the responsibility of tracking capital assets was brought in house, however, neither the consultant's existing capital asset records, nor fiscal year 2005 additions and deletions were set up in a new automated system. As a result, delays occurred in compiling and summarizing these records.

We recommend the Town establish formal automated records to track capital assets, and also establish procedures to capture capital asset additions and deletions throughout the year. This will improve the accountability over these records and accelerate the year end closing and audit process.

**8. Improve Compensated Absences Accounting**

The Town's accounting for sick and vacation days is currently maintained on a decentralized basis, with departments tracking employee balances of earned and used time. There are many factors that impact the calculation of compensated absences, including multiple union contracts, length of tenure, age or retirement, and terms of leaving. These factors make the accounting a complicated and time-consuming area. Maintaining these records on a decentralized basis increases the risk of errors or abuses occurring.

We recommend the Town centralize the accounting for employee compensated absences. Centralizing and fully automating this process would increase efficiency and provide the Town with improved controls over the payment of compensated absences.

**9. Maintain Spreadsheet for Appropriations**

The Town's departmental budget reports summarize available appropriation balances which include prior year encumbrances and articles, annual and special town meeting votes, and reserve fund transfers.

We recommend the Town Accountant maintain a spreadsheet to summarize all components of the revised appropriation balance from the appropriation



report, for both the general and enterprise funds. This will provide additional assurance of the accuracy of budget report information.

**10. Reconcile Student Activity Funds**

The School Department does not currently have procedures in place to reconcile the student activity fund balances to the Town's general ledger on a regular basis. This increases the risk that either student activity accounts or the Town's general ledger balances could be inaccurate and not be detected.

We recommend the School Department reconcile student activity fund balances between the general ledger, bank account and detail student activity fund registers on a monthly basis. This will reduce the risk that errors or irregularities could occur and not be detected in a timely manner.

**11. Consistently Apply Indirect Costs**

The Town biannually calculates indirect costs to be allocated to the three enterprise funds and School Department. During our testing, we noted inconsistencies between the numbers reported in the allocation plan, those presented at town meeting, and those included in the tax recap form.

We recommend the Town establish procedures to assure calculated amounts are consistently presented at town meeting and on the tax recap form. This will help assure reasonable and eligible amounts are actually charged to the enterprise funds and School Department.

**12. Monitor Revenue Budget**

The Town currently monitors actual receipts against estimated receipts using Excel spreadsheets, instead of the computer-generated revenue report which is integrated with the general ledger. This process is less efficient and increases the risk that errors could occur in the process.

We recommend the Town incorporate budgeted revenue amounts in the computer system in order to utilize the automatic variance analysis function.

This will provide for a more efficient process to analyze monthly revenues to identify unexpected trends and variances.

**13. Prepare for the Implementation of GASB Statement 45**

In June 2004 the Governmental Accounting Standards Board (GASB) issued GASB 445, which addresses other post-employment benefits (OPEB), including medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries. The standard, which will be applicable to the Town in fiscal year 2009, requires employers to obtain an actuarial valuation and to disclose certain information relating to the funding progress of the plan, including:

- Actuarial valuation date
- Accrued liability and total unfunded liability
- Annual covered payroll
- Ratio of the unfunded actuarial liability to annual covered payroll

We recommend that the Town begin the process of implementing this requirement, specifically by budgeting and contracting for an actuarial valuation. This will assure the Town is prepared to meet the upcoming reporting requirements of GASB 45.

**14. Other Issues**

**Process Old Outstanding Checks Through Tailings (Treasurer):**

At least annually, the Treasurer should remove old outstanding checks from the bank reconciliation and reclassify to a tailings liability account. This information should be processed through the Town's general ledger records, and detail lists should be retained by the Treasurer to track these accounts.

Also, all re-issuances of stale checks should be processed through the Town's warrant process, and be formally posted to the general ledger.

**Establish Bid Form (Board of Selectmen):**

The Town should create a "bid form" to be attached to applicable vendor bills submitted for warrant processing to document that the purchase was

made in compliance with the Chapter 30B bid law. Disbursement requests lacking the proper bid documentation should be rejected from the warrant.

Close Inactive Accounts (Accountant):

All inactive special revenue and capital project accounts should be monitored at least annually to determine the disposition of remaining balances.

**TOWN OF  
MIDDLEBOROUGH, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2005**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	10
Statement of Activities	11
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
<b>Proprietary Funds:</b>	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
<b>Notes to the Financial Statements</b>	22



# MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Center Drive • Suite 112  
Andover, MA 01810-1096  
Tel (978) 749-0005 • Fax (978) 749-0006  
melansonheath.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Middleborough, 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 Middleborough, Massachusetts, as of and for the year ended June 30, 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 Middleborough's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the Town of Middleborough Municipal Gas and Electric Enterprise Fund at December 31, 2004 and for the year then ended, which represent 57.5% and 84.8%, respectively, of the assets and revenues of the Town's enterprise funds. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Municipal Gas and Electric Enterprise Fund, is based on the report of the other auditor.

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.

The accompanying financial statements do not include all disclosures for the Municipal Gas and Electric Enterprise Fund, as required by generally accepted accounting principles. Such information can be found in separate December 31, 2004 financial statements of the Municipal Gas and Electric Enterprise Fund, which was audited by other auditors.

*Additional Offices:*

Nashua, NH • Greenfield, MA • Ellsworth, ME

In our opinion, based on our audit and the report of other auditors, and except for the information in the preceding paragraph, 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 Middleborough, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated June 8, 2006 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.*

Andover, Massachusetts  
June 8, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Middleborough, we offer readers this narrative overview and analysis of the financial activities of the Town of Middleborough for the fiscal year ended June 30, 2005.

### A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water, sewer, and gas and electric activities.

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



**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial 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 funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water, sewer, and gas and electric operations.

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

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary infor-

mation, which is required to be disclosed by the *Governmental Accounting Standards Board*.

**B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 85,618,971 (i.e., net assets), a decrease of \$ (2,653,320) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,431,355, a decrease of \$ (4,601,918) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 945,977, a decrease of \$ (1,390,455) in comparison with the prior year, as restated.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 35,010,791, a decrease of \$ (3,176,468) in comparison to the prior year, as restated.

**C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the prior and current fiscal years. Amounts are presented in thousands.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 28,986	\$ 31,705	\$ 30,863	\$ 26,205	\$ 59,849	\$ 57,910
Capital assets	<u>61,810</u>	<u>63,906</u>	<u>31,746</u>	<u>26,744</u>	<u>93,556</u>	<u>90,650</u>
Total assets	90,796	95,611	62,609	52,949	153,405	148,560
Long-term liabilities outstanding	33,115	35,520	13,226	5,453	46,341	40,973
Other liabilities	<u>12,037</u>	<u>8,561</u>	<u>9,409</u>	<u>10,754</u>	<u>21,446</u>	<u>19,315</u>
Total liabilities	45,152	44,081	22,635	16,207	67,787	60,288
Net assets:						
Invested in capital assets, net	33,530	31,326	23,455	24,202	56,985	55,528
Restricted	5,982	7,142	-	-	5,982	7,142
Unrestricted	<u>6,132</u>	<u>13,062</u>	<u>16,519</u>	<u>12,540</u>	<u>22,651</u>	<u>25,602</u>
Total net assets	\$ <u>45,644</u>	\$ <u>51,530</u>	\$ <u>39,974</u>	\$ <u>36,742</u>	\$ <u>85,618</u>	\$ <u>88,272</u>

## CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 4,581	\$ 3,998	\$ 35,953	\$ 33,123	\$ 40,534	\$ 37,121
Operating grants and contributions	19,143	24,029	-	297	19,143	24,326
Capital grants and contributions	1,079	180	1,145	-	2,224	180
General revenues:						
Property taxes	22,157	22,089	-	-	22,157	22,089
Excises	2,669	2,517	-	-	2,669	2,517
Penalties and interest on taxes	173	209	-	-	173	209
Grants and contributions not restricted to specific programs	5,658	2,204	4	-	5,662	2,204
Investment income	408	173	65	-	473	173
Loss on disposal of asset	-	( 193)	-	( 56)	-	( 249)
Other	<u>300</u>	<u>9</u>	<u>252</u>	<u>-</u>	<u>552</u>	<u>9</u>
Total revenues	<u>56,168</u>	<u>55,215</u>	<u>37,419</u>	<u>33,364</u>	<u>93,587</u>	<u>88,579</u>
<b>Expenses:</b>						
General government	4,784	12,126	-	-	4,784	12,126
Public safety	7,754	6,571	-	-	7,754	6,571
Education	32,936	29,932	-	-	32,936	29,932
Public works	4,922	1,692	-	-	4,922	1,692
Health and human services	1,199	952	-	-	1,199	952
Culture and recreation	1,218	1,014	-	-	1,218	1,014
Employee benefits	9,761	-	-	-	9,761	-
Interest on long-term debt	1,592	1,120	-	-	1,592	1,120
Intergovernmental	368	223	-	-	368	223
Miscellaneous	-	172	-	-	-	172
Water operations	-	-	1,685	3,035	1,685	3,035
Sewer operations	-	-	556	1,467	556	1,467
Gas and electric operations	-	-	<u>30,654</u>	<u>29,158</u>	<u>30,654</u>	<u>29,158</u>
Total expenses	<u>64,534</u>	<u>53,802</u>	<u>32,895</u>	<u>33,660</u>	<u>97,429</u>	<u>87,462</u>
Change in net assets before transfers and permanent fund contribution	( 8,366)	1,413	4,524	( 296)	( 3,842)	1,117
Transfers in (out)	2,472	325	( 1,292)	-	1,180	325
Permanent fund contribution	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>
Change in net assets	( 5,886)	1,738	3,232	( 296)	( 2,654)	1,442
Net assets - beginning of year, as restated	<u>51,530</u>	<u>49,792</u>	<u>36,742</u>	<u>37,038</u>	<u>88,272</u>	<u>86,830</u>
Net assets - end of year	<u>\$ 45,644</u>	<u>\$ 51,530</u>	<u>\$ 39,974</u>	<u>\$ 36,742</u>	<u>\$ 85,618</u>	<u>\$ 88,272</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 85,618,971, a decrease of \$ (2,653,320) from the prior year.

The largest portion of net assets \$ 56,985,345 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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 net assets \$ 5,982,217 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 22,651,409 may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a decrease in net assets of \$ (5,885,899). Key elements of this decrease are as follows:

General fund operating results - as described in section D	\$ (1,391,233)
Landfill capital project fund deficit	(2,212,698)
Nonmajor funds - accrual basis	214,226
Excess depreciation, which is not budgeted or funded, over principal maturities, a budgeted expense	( 648,011)
Use of MSBA proceeds to fund debt service costs	(1,613,264)
Other GAAP accruals	<u>( 234,919)</u>
Total	\$ <u>(5,885,899)</u>

**Business-type activities.** Business-type activities for the year resulted in an increase in net assets of \$ 3,232,579 summarized as follows:

Water fund	\$ 1,808,097
Sewer fund	548,381
Municipal gas and electric fund	<u>876,101</u>
Total	\$ <u>3,232,579</u>

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,431,355, a decrease of \$ (4,601,918) in comparison with the prior year. Key elements of this decrease are as follows:

General fund operating results, as described below	\$ (1,391,233)
Landfill capital project fund expenditures	(2,212,698)
Nonmajor fund operating results	( 997,987)
<b>Total</b>	<b>\$ (4,601,918)</b>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 945,977, while total fund balance was \$ 1,167,148. 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 2 percent of total general fund expenditures, while total fund balance represents 3 percent of that same amount.

The fund balance of the general fund decreased by \$ (1,391,233) during the current fiscal year. Key factors in this change are as follows:

Excess revenues over budget	\$ 683,517
Budgetary appropriation turnbacks by departments	323,690
Excess tax collections over budget	204,587
Use of free cash (fund balance) as a funding source	(2,443,855)
Other	( 159,172)
<b>Total</b>	<b>\$ (1,391,233)</b>

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 16,519,087, an increase of \$ 3,979,031 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 305,867. The Town authorized

transfers from other fund reserves for \$ 154,867 and authorized the release of an additional \$ 151,000 from free cash to fund an increase in general government appropriations of \$ 76,439, public safety appropriations of \$ 151,000, and public works appropriations of \$ 78,428.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 93,555,943 (net of accumulated depreciation), an increase of \$ 3,204,747 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Construction in progress on the Nemasket sewer improvements of \$ 2,854,377.
- Construction in progress on the water system improvements of \$ 1,162,278.

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 35,010,791, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Middleborough'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:

Board of Selectmen  
Town of Middleborough  
10 Nickerson Avenue  
Middleborough, MA 02346

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2005

(except for the Municipal Gas and Electric Enterprise Fund, which is as of December 31, 2004)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 12,475,029	\$ 25,308,408	\$ 37,783,437
Receivables, net of allowance for uncollectibles:			
Property taxes	388,462	-	388,462
Excises	165,368	-	165,368
User fees	-	4,091,197	4,091,197
Departmental and other	790,388	-	790,388
Intergovernmental	14,738,280	81,867	14,820,147
Inventory	-	894,061	894,061
Investments in associated companies	-	327,637	327,637
Other assets	-	159,789	159,789
Noncurrent:			
Receivables, net of allowance for uncollectibles	428,858	-	428,858
Capital assets:			
Land and construction in progress	10,213,996	6,344,186	16,558,182
Other capital assets, net of accumulated depreciation	<u>51,595,815</u>	<u>25,401,946</u>	<u>76,997,761</u>
<b>TOTAL ASSETS</b>	<b>90,796,196</b>	<b>62,609,091</b>	<b>153,405,287</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	2,548,101	3,085,605	5,633,706
Accrued liabilities	2,329,913	193,053	2,522,966
Notes payable	4,219,800	4,644,000	8,863,800
Other current liabilities	86,833	964,632	1,051,465
Current portion of long-term liabilities:			
Bonds payable	2,640,972	513,207	3,154,179
Compensated absences	173,460	7,806	181,266
Landfill closure	37,660	-	37,660
Noncurrent:			
Bonds payable, net of current portion	27,069,666	4,786,946	31,856,612
Compensated absences, net of current portion	3,295,741	803,537	4,099,278
Landfill closure, net of current portion	2,749,680	-	2,749,680
Rate stabilization	-	2,749,803	2,749,803
Stranded costs	-	<u>4,885,901</u>	<u>4,885,901</u>
<b>TOTAL LIABILITIES</b>	<b>45,151,826</b>	<b>22,634,490</b>	<b>67,786,316</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	33,529,831	23,455,514	56,985,345
Restricted for:			
Grants and other statutory restrictions	5,516,656	-	5,516,656
Permanent funds:			
Expendable	53,240	-	53,240
Nonexpendable	412,321	-	412,321
Unrestricted	<u>6,132,322</u>	<u>16,519,087</u>	<u>22,651,409</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>45,644,370</u></b>	<b>\$ <u>39,974,601</u></b>	<b>\$ <u>85,618,971</u></b>

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

(except for the Municipal Gas and Electric Enterprise Fund, which is for the year ended December 31, 2004)

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 4,784,148	\$ 1,368,975	\$ 901,437	\$ -	\$ (2,513,736)	\$ -	\$ (2,513,736)
Public safety	7,753,961	1,631,950	448,234	-	(5,673,777)	-	(5,673,777)
Education	32,936,248	1,159,973	17,550,810	-	(14,225,465)	-	(14,225,465)
Public works	4,921,697	14,927	2,300	1,078,826	(3,825,644)	-	(3,825,644)
Health and human services	1,199,364	342,395	142,874	-	(714,095)	-	(714,095)
Culture and recreation	1,218,100	63,183	96,826	-	(1,058,091)	-	(1,058,091)
Employee benefits	9,760,536	-	-	-	(9,760,536)	-	(9,760,536)
Interest	1,592,028	-	-	-	(1,592,028)	-	(1,592,028)
Intergovernmental	367,624	-	-	-	(367,624)	-	(367,624)
<b>Total Governmental Activities</b>	<b>64,533,706</b>	<b>4,581,403</b>	<b>19,142,481</b>	<b>1,078,826</b>	<b>(39,730,996)</b>	<b>-</b>	<b>(39,730,996)</b>
<b>Business-Type Activities:</b>							
Water services	1,685,239	2,759,148	-	1,144,820	-	2,218,729	2,218,729
Sewer services	555,616	1,483,122	-	-	-	927,506	927,506
Municipal Gas and Electric services	30,654,467	31,711,173	-	-	-	1,056,706	1,056,706
<b>Total Business-Type Activities</b>	<b>32,895,322</b>	<b>35,953,443</b>	<b>-</b>	<b>1,144,820</b>	<b>-</b>	<b>4,202,941</b>	<b>4,202,941</b>
<b>Total</b>	<b>\$ 97,429,028</b>	<b>\$ 40,534,846</b>	<b>\$ 19,142,481</b>	<b>\$ 2,223,646</b>	<b>(39,730,996)</b>	<b>4,202,941</b>	<b>(35,528,055)</b>
<b>General Revenues:</b>							
Property taxes					22,157,235	-	22,157,235
Excises					2,669,141	-	2,669,141
Penalties, interest and other taxes					173,155	-	173,155
Grants and contributions not restricted to specific programs					5,657,515	3,766	5,661,281
Investment income					408,187	65,492	473,679
Miscellaneous					300,161	251,791	551,952
Permanent fund contributions					8,146	-	8,146
Transfers, net					2,471,557	(1,291,411)	1,180,146
<b>Total general revenues, permanent fund contributions, and transfers</b>					<b>33,845,097</b>	<b>(970,362)</b>	<b>32,874,735</b>
<b>Change in Net Assets</b>					<b>(5,885,899)</b>	<b>3,232,579</b>	<b>(2,653,320)</b>
<b>Net Assets:</b>							
Beginning of year, as restated					51,530,269	36,742,022	88,272,291
End of year					\$ 45,644,370	\$ 39,974,601	\$ 85,618,971

See notes to financial statements.



TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2005

<b>ASSETS</b>	<u>General</u>	<u>Landfill Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 5,263,591	\$ 4,739	\$ 7,206,699	\$ 12,475,029
Receivables:				
Property taxes	1,003,272	-	-	1,003,272
Excises	316,206	-	-	316,206
Departmental and other	84,787	-	742,895	827,682
Intergovernmental	<u>13,148,500</u>	<u>-</u>	<u>1,589,779</u>	<u>14,738,279</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 19,816,356</u></b>	<b><u>\$ 4,739</u></b>	<b><u>\$ 9,539,373</u></b>	<b><u>\$ 29,360,468</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 2,548,100	\$ -	\$ -	\$ 2,548,100
Accrued liabilities	1,687,980	-	-	1,687,980
Deferred revenues	14,342,849	-	2,043,550	16,386,399
Notes payable	-	2,175,000	2,044,800	4,219,800
Other liabilities	<u>70,279</u>	<u>-</u>	<u>16,555</u>	<u>86,834</u>
<b>TOTAL LIABILITIES</b>	<b>18,649,208</b>	<b>2,175,000</b>	<b>4,104,905</b>	<b>24,929,113</b>
Fund Balances:				
Reserved for:				
Encumbrances and continuing appropriations	221,171	-	-	221,171
Perpetual (nonexpendable) permanent funds	-	-	412,321	412,321
Unreserved:				
General fund	945,977	-	-	945,977
Special revenue funds	-	-	5,501,554	5,501,554
Capital project funds	-	(2,170,261)	(532,647)	(2,702,908)
Permanent funds	<u>-</u>	<u>-</u>	<u>53,240</u>	<u>53,240</u>
<b>TOTAL FUND BALANCES</b>	<b><u>1,167,148</u></b>	<b><u>(2,170,261)</u></b>	<b><u>5,434,468</u></b>	<b><u>4,431,355</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 19,816,356</u></b>	<b><u>\$ 4,739</u></b>	<b><u>\$ 9,539,373</u></b>	<b><u>\$ 29,360,468</u></b>

See notes to financial statements.

TOWN of MIDDLEBOROUGH, MASSACHUSETTS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2005

<b>Total governmental fund balances</b>	<b>\$ 4,431,355</b>
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	61,809,811
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	16,012,316
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	( 641,933)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	<u>(35,967,179)</u>
<b>Net assets of governmental activities</b>	<b>\$ <u>45,644,370</u></b>

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	Landfill Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 22,904,882	\$ -	\$ -	\$ 22,904,882
Excises	2,708,076	-	-	2,708,076
Penalties, interest and other taxes	173,156	-	-	173,156
Charges for services	-	-	2,752,604	2,752,604
Intergovernmental	22,427,879	-	4,439,393	26,867,272
Licenses and permits	1,040,202	-	-	1,040,202
Fines and forfeitures	280,450	-	-	280,450
Investment income	394,465	-	13,722	408,187
Betterments	15,998	-	-	15,998
Miscellaneous	600,771	-	8,146	608,917
<b>Total Revenues</b>	<b>50,545,879</b>	<b>-</b>	<b>7,213,865</b>	<b>57,759,744</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	3,209,092	-	1,253,548	4,462,640
Public safety	5,766,052	-	1,614,150	7,380,202
Education	28,161,439	-	3,711,336	31,872,775
Public works	1,638,467	2,212,698	643,159	4,494,324
Health and human services	905,626	-	211,049	1,116,675
Culture and recreation	867,624	-	119,269	986,893
Employee benefits	9,760,536	-	-	9,760,536
Debt service	4,391,550	-	-	4,391,550
Intergovernmental	367,624	-	-	367,624
<b>Total Expenditures</b>	<b>55,068,010</b>	<b>2,212,698</b>	<b>7,552,511</b>	<b>64,833,219</b>
Excess (deficiency) of revenues over expenditures	(4,522,131)	(2,212,698)	(338,646)	(7,073,475)
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	4,202,220	-	350,000	4,552,220
Operating transfers out	(1,071,322)	-	(1,009,341)	(2,080,663)
<b>Total Other Financing Sources (Uses)</b>	<b>3,130,898</b>	<b>-</b>	<b>(659,341)</b>	<b>2,471,557</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1,391,233)	(2,212,698)	(997,987)	(4,601,918)
Fund Equity, at Beginning of Year, as restated	2,558,381	42,437	6,432,455	9,033,273
Fund Equity, at End of Year	\$ 1,167,148	\$ (2,170,261)	\$ 5,434,468	\$ 4,431,355

See notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2005

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**    \$ (4,601,918)

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:
 

Capital outlay purchases	1,229,025
Capital dispositions, net of accumulated depreciation	( 16,812)
Depreciation	(3,308,495)
  
  - 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.
 

	(1,427,818)
--	-------------
  
  - 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:
 

Repayments of debt	2,660,484
--------------------	-----------
  
  - In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.
 

	139,037
--	---------
  
  - Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.
 

	( 559,402)
--	------------
- CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**    \$ (5,885,899)

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 22,700,295	\$ 22,700,295	\$ 22,700,295	\$ -
Excise	2,662,854	2,662,854	2,708,076	45,222
Penalties, interest and other taxes	249,000	249,000	173,156	(75,844)
Intergovernmental	18,991,778	18,991,778	19,403,476	411,698
Licenses and permits	1,225,000	1,225,000	1,040,202	(184,798)
Fines and forfeits	290,000	290,000	280,450	(9,550)
Investment income	175,000	175,000	394,465	219,465
Betterments	15,000	15,000	15,998	998
Miscellaneous	674,174	674,174	600,771	(73,403)
Transfers in	3,697,624	3,852,491	4,202,220	349,729
Free cash	2,292,855	2,443,855	2,443,855	-
<b>Total Revenues and Other Sources</b>	<b>52,973,580</b>	<b>53,279,447</b>	<b>53,962,964</b>	<b>683,517</b>
<b>Expenditures and Other Uses:</b>				
General government	3,281,774	3,358,213	3,263,564	94,649
Public safety	5,678,025	5,829,025	5,769,517	59,508
Education	25,288,630	25,288,630	25,156,707	131,923
Public works	1,422,119	1,500,547	1,650,884	(150,337)
Health and human services	932,841	932,841	905,951	26,890
Culture and recreation	868,927	868,927	868,024	903
Employee benefits	9,639,514	9,639,514	9,549,297	90,217
Debt service	4,398,942	4,398,942	4,224,928	174,014
Intergovernmental	266,209	266,209	367,624	(101,415)
Transfers out	1,068,660	1,068,660	1,071,322	(2,662)
Other uses	127,939	127,939	127,939	-
<b>Total Expenditures and Other Uses</b>	<b>52,973,580</b>	<b>53,279,447</b>	<b>52,955,757</b>	<b>323,690</b>
<b>Excess of revenues and other sources over expenditures and other uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,007,207</b>	<b>\$ 1,007,207</b>

See notes to financial statements.

## TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2005

(except for the Municipal Gas and Electric Enterprise Fund, which is as of December 31, 2004)

	<u>Business-Type Activities Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Municipal Gas and Electric Department</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current:				
Cash and short-term investments	\$ 2,286,448	\$ 2,584,910	\$ 20,437,050	\$ 25,308,408
User fees, net of allowance for uncollectibles	740,489	427,453	2,923,255	4,091,197
Intergovernmental receivables	-	81,867	-	81,867
Inventory	-	-	894,061	894,061
Investments in associated companies	-	-	327,637	327,637
Other assets	-	-	159,789	159,789
Total current assets	<u>3,026,937</u>	<u>3,094,230</u>	<u>24,741,792</u>	<u>30,862,959</u>
Noncurrent:				
Capital assets				
Land and construction in progress	2,837,622	3,192,097	314,467	6,344,186
Other capital assets, net of accumulated depreciation	<u>12,493,729</u>	<u>1,962,548</u>	<u>10,945,669</u>	<u>25,401,946</u>
Total noncurrent assets	<u>15,331,351</u>	<u>5,154,645</u>	<u>11,260,136</u>	<u>31,746,132</u>
<b>TOTAL ASSETS</b>	<b>18,358,288</b>	<b>8,248,875</b>	<b>36,001,928</b>	<b>62,609,091</b>
<b><u>LIABILITIES</u></b>				
Current:				
Warrants payable	-	-	3,085,605	3,085,605
Accrued liabilities	67,033	7,122	118,898	193,053
Notes payable	1,144,000	3,500,000	-	4,644,000
Other current liabilities	-	-	964,632	964,632
Current portion of long-term liabilities:				
Bonds payable	386,000	127,207	-	513,207
Compensated absences	<u>3,979</u>	<u>3,827</u>	<u>-</u>	<u>7,806</u>
Total current liabilities	<u>1,601,012</u>	<u>3,638,156</u>	<u>4,169,135</u>	<u>9,408,303</u>
Noncurrent:				
Bonds payable, net of current portion	4,205,000	581,946	-	4,786,946
Compensated absence, net of current portion	75,610	72,718	655,209	803,537
Rate stabilization	-	-	2,749,803	2,749,803
Stranded costs	-	-	4,885,901	4,885,901
Total noncurrent liabilities	<u>4,280,610</u>	<u>654,664</u>	<u>8,290,913</u>	<u>13,226,187</u>
<b>TOTAL LIABILITIES</b>	<b>5,881,622</b>	<b>4,292,820</b>	<b>12,460,048</b>	<b>22,634,490</b>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	10,284,241	1,911,137	11,260,136	23,455,514
Unrestricted	<u>2,192,425</u>	<u>2,044,918</u>	<u>12,281,744</u>	<u>16,519,087</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>12,476,666</u></b>	<b>\$ <u>3,956,055</u></b>	<b>\$ <u>23,541,880</u></b>	<b>\$ <u>39,974,601</u></b>

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

(except for the Municipal Gas and Electric Enterprise Fund, which is for the year ended December 31, 2004)

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Municipal Gas and Electric Department	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 2,759,148	\$ 1,483,122	\$ 31,711,173	\$ 35,953,443
Capital contributions	1,144,820	-	-	1,144,820
Other	283,797	26,068	-	309,865
Total Operating Revenues	4,187,765	1,509,190	31,711,173	37,408,128
<b>Operating Expenses:</b>				
Operating expenses	1,263,724	423,392	29,007,792	30,694,908
Depreciation	421,515	132,224	1,646,675	2,200,414
Total Operating Expenses	1,685,239	555,616	30,654,467	32,895,322
Operating Income (Loss)	2,502,526	953,574	1,056,706	4,512,806
<b>Nonoperating Revenues (Expenses):</b>				
Intergovernmental revenue	-	3,766	-	3,766
Investment income	18,173	17,729	227,946	263,848
Loss on disposal of capital asset and equity redemption	-	-	(58,074)	(58,074)
Interest expense	(184,183)	(14,173)	-	(198,356)
Total Nonoperating Revenues (Expenses), Net	(166,010)	7,322	169,872	11,184
Income (Loss) Before Transfers	2,336,516	960,896	1,226,578	4,523,990
<b>Transfers:</b>				
Operating transfers in	614,376	142,845	-	757,221
Operating transfers out	(1,142,795)	(555,360)	(350,477)	(2,048,632)
Change in Net Assets	1,808,097	548,381	876,101	3,232,579
Net Assets at Beginning of Year	10,668,569	3,407,674	22,665,779	36,742,022
Net Assets at End of Year	\$ 12,476,666	\$ 3,956,055	\$ 23,541,880	\$ 39,974,601

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

(except for the Municipal Gas and Electric Enterprise Fund, which is for the year ended December 31, 2004)

	<u>Business-Type Activities Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Municipal Gas and Electric Department</u>	<u>Total</u>
<b><u>Cash Flows From Operating Activities:</u></b>				
Receipts from customers and users	\$ 3,801,825	\$ 1,375,175	\$ 32,813,855	\$ 37,990,855
Payments to vendors and employees	(1,483,787)	(478,255)	(27,761,376)	(29,723,418)
Other receipts (payments)	12,350	26,795	256	39,401
Net Cash Provided By (Used For) Operating Activities	2,330,388	923,715	5,052,735	8,306,838
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>				
Operating transfers in	614,376	142,845	-	757,221
Operating transfers out	(1,142,795)	(555,360)	-	(1,698,155)
Payments to Town of Middleborough in lieu of taxes	-	-	(350,477)	(350,477)
Net Cash (Used For) Noncapital Financing Activities	(528,419)	(412,515)	(350,477)	(1,291,411)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>				
Proceeds from issuance of bonds and notes	1,144,000	3,500,000	-	4,644,000
Acquisition and construction of capital assets	(2,905,683)	(2,882,262)	(1,771,294)	(7,559,239)
Principal payments on bonds and notes	(389,000)	(126,984)	-	(515,984)
Interest expense	(184,183)	(14,173)	-	(198,356)
Intergovernmental revenue	-	3,766	-	3,766
Net Cash (Used For) Capital and Related Financing Activities	(2,334,866)	480,347	(1,771,294)	(3,625,813)
<b><u>Cash Flows From Investing Activities:</u></b>				
Investment income	18,173	17,729	235,063	270,965
Net Cash (Used For) Investing Activities	18,173	17,729	235,063	270,965
Net Change in Cash and Short-Term Investments	(514,724)	1,009,276	3,166,027	3,660,579
Cash and Short-Term Investments, Beginning of Year	2,801,172	1,575,634	17,271,023	21,647,829
Cash and Short-Term Investments, End of Year	<u>\$ 2,286,448</u>	<u>\$ 2,584,910</u>	<u>\$ 20,437,050</u>	<u>\$ 25,308,408</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>				
Operating income (loss)	\$ 2,502,526	\$ 953,574	\$ 1,056,706	\$ 4,512,806
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	421,515	132,224	1,646,675	2,200,414
Equity in affiliates	-	-	(36,766)	(36,766)
Changes in assets and liabilities:				
User fees	(385,940)	(107,947)	(298,193)	(792,080)
Inventory	-	-	(125,537)	(125,537)
Prepayments	-	-	235,303	235,303
Intergovernmental receivable	-	727	-	727
Other assets	12,350	-	-	12,350
Warrants, accounts payable, and accrued expenses	(225,152)	(53,408)	636,681	358,121
Other liabilities	5,089	(1,455)	-	3,634
Other income	-	-	534	534
Other expenses	-	-	(278)	(278)
Other deferred credits	-	-	1,937,610	1,937,610
Net Cash Provided By (Used For) Operating Activities	<u>\$ 2,330,388</u>	<u>\$ 923,715</u>	<u>\$ 5,052,735</u>	<u>\$ 8,306,838</u>

See notes to financial statements.



TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 173,390	\$ 1,119,062
Investments	<u>-</u>	<u>405,549</u>
Total Assets	173,390	1,524,611
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Other liabilities	<u>-</u>	<u>1,524,611</u>
Total Liabilities	<u>-</u>	<u>1,524,611</u>
<b><u>NET ASSETS</u></b>		
Total net assets	\$ <u><u>173,390</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF MIDDLEBOROUGH, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ <u>2,671</u>
Total additions	2,671
<b>Deductions:</b>	
Other	<u>1,100</u>
Total deductions	<u>1,100</u>
Net increase (decrease)	1,571
<b>Net assets:</b>	
Beginning of year, as restated	<u>171,819</u>
End of year	\$ <u><u>173,390</u></u>

See notes to financial statements.

# TOWN OF MIDDLEBOROUGH, MASSACHUSETTS

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Middleborough conform to generally accepted accounting principles (GAAP) as applicable to governmental units. 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-39 criteria of component units.

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

##### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

##### Fund Financial Statements

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

mental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

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. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other 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 *Landfill Capital Project Fund* to account for activity related to the Brook Street Landfill closure.

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 both the government-wide and 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 following major proprietary funds:

- Water operations
- Sewer operations
- Municipal gas and electric operations

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

**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 funds consider 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.

Investments for the Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

**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 \$ 25,229.

**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 "internal balances" (i.e., the current portion of interfund loans), which we treat as transfers. The difference between transfers in and transfers out of \$ 1,180,146 is because the Gas and Electric Department is reported as of December 31, 2004.

**H. Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

**I. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 25,000 and an esti-

mated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Infrastructure	50 - 75
Vehicles	5
Other machinery and equipment	5 - 15
Office equipment	5 - 7
Computer equipment	5

**J. Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**K. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**L. 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. Designations of fund balance represent tentative management plans that are subject to change.

**M. 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. 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 foreseen as of the time of the annual meeting when appropriations are voted.

**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 and proprietary funds 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)	\$ 50,545,879	\$ 55,068,010
Other financing sources/uses (GAAP basis)	<u>4,202,220</u>	<u>1,071,322</u>
Subtotal (GAAP Basis)	54,748,099	56,139,332
Adjust tax revenue to accrual basis	( 204,587)	-
Reverse beginning of year appropri- ation carryforwards from expenditures	-	( 130,421)
Add end of year appropriation carryforwards to expenditures	-	221,171
To reverse GASB 24 MTRS	( 3,024,403)	( 3,024,403)
To record timing differences	-	( 249,922)
To record use of free cash	<u>2,443,855</u>	<u>-</u>
Budgetary basis	<u>\$ 53,962,964</u>	<u>\$ 52,955,757</u>

**D. Excess of Expenditures Over Appropriations**

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

Snow and ice	\$ 256,353
Transfers out	2,662

**E. Deficit Fund Equity**

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

Brook St. Landfill Capital Project Fund - Major Fund	\$ (2,170,261)
Department Equipment Capital Project Fund	\$ ( 18,303)
Police Cruisers Capital Project Fund	\$ ( 68)
Police Laptops Capital Project Fund	\$ ( 36,000)
Fire Vehicle Capital Project Fund	\$ ( 38,528)
Fire Truck Capital Project Fund	\$ ( 62,438)
Fire Apparatus Capital Project fund	\$ ( 275,000)
IT Equipment Capital Project fund	\$ ( 71,031)
Middle School Cont/Repair Capital Project Fund	\$ ( 138,199)
Const Gas Recovery Capital Project Fund	\$ ( 38,120)
New Landfill Capital Project Fund	\$ ( 267,000)
School Multiple Articles Capital Project Fund	\$ ( 91,448)

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

### 3. Cash and Short-Term Investments

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts General Law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent 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." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2005, \$ 32,514,294 of the Town's bank balance of \$ 33,419,644 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

### 4. 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 law, chapter 44, section 55, limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment of the Town (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Certificates of deposits	\$ <u>406</u>	N/A	\$ <u>406</u>
Total investments	\$ <u>406</u>		\$ <u>406</u>

#### 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:

<u>Investment Issuer</u>	<u>Amount</u>	<u>% of Total Investments</u>
Eastern Bank - certificates of deposit	\$ <u>406</u>	100%
Total	\$ <u>406</u>	

**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. 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.

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>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Debt Related Securities:					
Certificates of deposit	\$ <u>406</u>	\$ <u>406</u>	\$ -	\$ -	\$ -
Total	\$ <u>406</u>	\$ <u>406</u>	\$ <u>    </u>	\$ <u>    </u>	\$ <u>    </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.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes due and unpaid 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	\$ <u>397</u>		397
Personal Property			
2005	17		
2004	10		
2003	16		
2002	8		
Prior	77		
			128
Tax Liens			477
Taxes in Litigation			<u>1</u>
Total			\$ <u>1,003</u>

#### 6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 186	\$ -
Excises	151	-
Utilities	-	13
Other	37	-

#### 7. Intergovernmental Receivables

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

#### 8. Other Assets

Consists primarily of prepaid expenses.

#### 9. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 51,183	\$ -	\$ -	\$ 51,183
Machinery, equipment, and furnishings	13,063	634	(272)	13,425
Infrastructure	<u>28,831</u>	<u>365</u>	<u>-</u>	<u>29,196</u>
Total capital assets, being depreciated	93,077	999	(272)	93,804
Less accumulated depreciation for:				
Buildings and improvements	(16,112)	(1,607)	-	(17,719)
Machinery, equipment, and furnishings	( 9,133)	(1,036)	255	( 9,914)
Infrastructure	<u>(13,910)</u>	<u>( 665)</u>	<u>-</u>	<u>(14,575)</u>
Total accumulated depreciation	<u>(39,155)</u>	<u>(3,308)</u>	<u>255</u>	<u>(42,208)</u>
Total capital assets, being depreciated, net	53,922	(2,309)	( 17)	51,596
Capital assets, not being depreciated:				
Land	9,176	-	-	9,176
Construction in progress	<u>808</u>	<u>230</u>	<u>-</u>	<u>1,038</u>
Total capital assets, not being depreciated	<u>9,984</u>	<u>230</u>	<u>-</u>	<u>10,214</u>
Governmental activities capital assets, net	\$ <u>63,906</u>	\$ <u>(2,079)</u>	\$ <u>( 17)</u>	\$ <u>61,810</u>

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 5,717	\$ -	\$ -	\$ 5,717
Machinery, equipment, and furnishings	2,264	48	-	2,312
Infrastructure	19,271	1,515	( 35)	20,751
Gas and electric	<u>32,934</u>	<u>1,771</u>	<u>(291)</u>	<u>34,414</u>
Total capital assets, being depreciated	60,186	3,334	(326)	63,194
Less accumulated depreciation for:				
Buildings and improvements	( 4,778)	( 38)	-	( 4,816)
Machinery, equipment, and furnishings	( 2,000)	( 53)	-	( 2,053)
Infrastructure	( 7,027)	( 462)	35	( 7,454)
Gas and electric	<u>(22,055)</u>	<u>(1,647)</u>	<u>233</u>	<u>(23,469)</u>
Total accumulated depreciation	<u>(35,860)</u>	<u>(2,200)</u>	<u>268</u>	<u>(37,792)</u>
Total capital assets, being depreciated, net	24,326	1,134	( 58)	25,402
Capital assets, not being depreciated:				
Land	1,587	-	-	1,587
Construction in progress	218	4,225	-	4,443
Gas and electric	<u>314</u>	<u>-</u>	<u>-</u>	<u>314</u>
Total capital assets, not being depreciated	<u>2,119</u>	<u>4,225</u>	<u>-</u>	<u>6,344</u>
Business-type activities capital assets, net	\$ <u>26,445</u>	\$ <u>5,359</u>	\$ <u>( 58)</u>	\$ <u>31,746</u>

Depreciation expense was charged to functions of the Town as follows (in thousands):

Governmental Activities:	
General government	\$ 429
Public safety	713
Education	1,122
Public works	929
Health and human services	17
Culture and recreation	<u>98</u>
Total depreciation expense - governmental activities	\$ <u>3,308</u>
Business-Type Activities:	
Water	\$ 421
Sewer	132
Gas and electric	<u>1,647</u>
Total depreciation expense - business-type activities	\$ <u>2,200</u>

**10. Warrants Payable**

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

**11. 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, except real and personal property taxes that are accrued for subsequent 60 day collections.

**12. Notes Payable**

The Town had the following notes outstanding at June 30, 2005:

General Obligation Anticipation Notes:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2005
Chapter 90	2.90%	04/25/05	07/25/05	\$ 11,800
Landfill	2.60%	09/30/04	09/30/05	2,205,000

(continued)

(continued)

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2005</u>
Fire dept equipment	3.00%	09/30/04	09/30/05	314,000
Landfill	3.00%	09/30/04	09/30/05	237,000
Fire truck renovation	3.00%	09/30/04	09/30/05	130,000
Computer hardware/software	3.00%	09/30/04	09/30/05	95,000
School Bus	3.00%	09/30/04	09/30/05	54,000
Police laptops	3.00%	09/30/04	09/30/05	36,000
School plans	2.05%	10/26/04	09/30/05	300,000
Department equipment	2.90%	5/20/05	09/30/05	72,000
Landfill	3.90%	5/20/05	09/30/05	365,000
MWPAT septic	0.00%	06/27/02	09/08/05	200,000
MWPAT septic	0.00%	01/21/05	01/21/06	<u>200,000</u>
Total Governmental Activities				<u>\$ 4,219,800</u>

Enterprise Anticipation Notes:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2005</u>
Sewer	3.00%	09/30/04	09/30/05	\$ 3,500,000
Water meters	3.00%	09/30/04	09/30/05	370,000
Water department equipment	3.00%	09/30/04	09/30/05	234,000
Water	3.00%	09/30/04	09/30/05	40,000
Water	2.45%	01/24/05	09/30/05	<u>500,000</u>
Total Enterprise Activities				<u>\$ 4,644,000</u>

The following summarizes activity in notes payable during fiscal year 2005:

Changes in Anticipation Notes:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Governmental activities	\$ 768	\$ 4,058	\$ (606)	\$ 4,220
Enterprise activities	-	<u>4,644</u>	-	<u>4,644</u>
Total	<u>\$ 768</u>	<u>\$ 8,702</u>	<u>\$ (606)</u>	<u>\$ 8,864</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 obliga-

tion bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2005</u>
Senior center	01/15/2010	5.90%	\$ 300,000
Senior center	03/01/2011	2.83%	119,000
Library	03/01/2011	2.84%	179,000
Land acquisition school	01/15/2019	5.41%	350,000
Town hall	01/15/2019	5.41%	2,565,000
Landfill planning	01/15/2019	5.41%	93,000
Department equipment	09/15/2006	3.12%	150,000
Police cruisers	09/15/2005	3.07%	25,000
Landfill compactor	09/15/2005	3.07%	65,000
Truck scale	09/15/2006	3.11%	28,000
Landfill engineering	09/15/2005	3.06%	35,000
Landfill site assessment	09/15/2005	3.05%	17,000
Junior high plans	09/15/2005	3.07%	59,000
Data processing	09/15/2010	3.51%	159,000
Fire station	03/01/2023	3.60%	4,255,000
Drainage improvements	03/01/2024	3.66%	259,000
Police cruisers	03/01/2007	2.00%	138,000
Oliver Mills park	03/01/2016	3.11%	127,000
School remodeling	03/01/2023	3.56%	80,000
School remodeling	03/01/2022	3.56%	34,000
School business	03/01/2007	2.00%	24,000
School project	01/15/2009	6.66%	740,000
School project	01/15/2010	5.90%	150,000
Landfill improvement	03/01/2008	2.00%	239,000
School remodeling	03/01/2011	3.56%	70,000
Landfill closeout	01/15/2019	5.41%	1,012,000
School project	01/15/2019	5.41%	140,000
School project	01/15/2019	5.41%	16,326,000
School project	12/15/2019	6.04%	1,175,000
Landfill closeout	09/15/2010	3.49%	41,000
Septic MWPAT	02/01/2017	0.00%	133,205
Septic MWPAT	02/01/2021	0.00%	173,385
Septic MWPAT	08/01/2022	0.00%	180,048
Brook street landfill	03/01/2024	3.66%	175,000
Landfill closure	03/01/2024	3.68%	<u>95,000</u>
<b>Total Governmental Activities:</b>			<b>\$ <u>29,710,638</u></b>



<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2005</u>
Sewer	07/15/2010	6.68%	\$ 120,000
Sewer MWPAT	08/01/2017	1.30%	334,153
Sewer plans	03/01/2008	2.00%	255,000
Water	03/01/2014	2.84%	238,000
Water treatment	01/15/2019	5.41%	824,000
Water tower	01/15/2008	5.21%	210,000
Land acquisition water	09/15/2010	3.52%	271,000
Water mains	03/01/2024	3.68%	1,900,000
Land acquisition water	03/01/2022	3.56%	941,000
Nemasket st water main	03/01/2024	3.63%	122,000
Wilder St. water main	03/01/2024	3.62%	<u>85,000</u>
<b>Total Business-Type Activities:</b>			<b>\$ <u>5,300,153</u></b>

**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	\$ 2,640,972	\$ 1,463,254	\$ 4,104,226
2007	2,432,972	1,348,737	3,781,709
2008	2,242,972	1,239,531	3,482,503
2009	2,158,972	1,133,985	3,292,957
2010	1,964,972	1,029,341	2,994,313
2011 - 2015	9,014,142	3,696,883	12,711,025
2016 - 2020	8,476,207	1,395,559	9,871,766
2021 - 2025	<u>779,429</u>	<u>58,807</u>	<u>838,236</u>
<b>Total</b>	<b>\$ <u>29,710,638</u></b>	<b>\$ <u>11,366,097</u></b>	<b>\$ <u>41,076,735</u></b>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 513,207	\$ 191,399	\$ 704,606
2007	511,432	175,717	687,149
2008	501,659	160,052	661,711
2009	341,006	144,361	485,367
2010	340,598	133,461	474,059
2011 - 2015	1,385,251	484,319	1,869,570
2016 - 2020	1,160,000	242,772	1,402,772
2021 - 2025	<u>547,000</u>	<u>52,474</u>	<u>599,474</u>
<b>Total</b>	<b>\$ <u>5,300,153</u></b>	<b>\$ <u>1,584,555</u></b>	<b>\$ <u>6,884,708</u></b>

**C. Changes in General Long-Term Liabilities**

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

	Total Balance <u>7/1/04</u>	Additions	Reductions	Total Balance <u>6/30/05</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/05</u>
<b><u>Governmental Activities</u></b>						
General obligation debt	\$ 32,371,122	\$ -	\$ (2,660,484)	\$ 29,710,638	\$ (2,640,972)	\$ 27,069,666
Accrued employee benefits	3,020,000	449,201	-	3,469,201	( 173,460)	3,295,741
Landfill closure	<u>2,816,000</u>	<u>-</u>	<u>( 28,660)</u>	<u>2,787,340</u>	<u>( 37,660)</u>	<u>2,749,680</u>
Totals	<u>\$ 38,207,122</u>	<u>\$ 449,201</u>	<u>\$ (2,689,144)</u>	<u>\$ 35,967,179</u>	<u>\$ (2,852,092)</u>	<u>\$ 33,115,087</u>
<b><u>Business-Type Activities</u></b>						
General obligation debt	\$ 5,816,137	\$ -	\$ ( 515,984)	\$ 5,300,153	\$ ( 513,207)	\$ 4,786,946
Accrued employee benefits	811,343	-	-	811,343	( 7,806)	803,537
Rate stabilization	-	2,749,803	-	2,749,803	-	2,749,803
Stranded costs	<u>4,521,446</u>	<u>364,455</u>	<u>-</u>	<u>4,885,901</u>	<u>-</u>	<u>4,885,901</u>
Totals	<u>\$ 11,148,926</u>	<u>\$ 3,114,258</u>	<u>\$ ( 515,984)</u>	<u>\$ 13,747,200</u>	<u>\$ ( 521,013)</u>	<u>\$ 13,226,187</u>

**14. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the Town to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for thirty years thereafter. Estimated future closure and postclosure care costs are reflected as a liability in these financial statements. The Town's landfill site is divided into two separate sections.

The main section of the landfill was 100% filled and stopped accepting waste as of November, 1995. The Town is in the process of placing a final cover on the main section of the landfill. The Town incurred approximately \$ 38,000 of capital and monitoring expenditures in fiscal 2005. The liability for the main section of the landfill is approximately \$ 753,340.

The other section of the landfill began accepting waste immediately after the closure of the main section of the landfill. The Town was required by state and federal laws and regulations, as a condition to the licensing of its new lined landfill cell, to adopt an approved funding plan, known as the Financial Assurance Mechanism. This plan outlines annual contributions to be made to finance closure and postclosure care costs for this cell. The balance in the fund at June 30, 2005, is \$ 2,034,000 and is included in the Town's special revenue funds.

The estimated liability for the new lined landfill cell closure and postclosure care costs is \$ 2,034,000 as of June 30, 2005, which is based on 100% usage of the lined landfill.

As of June 30, 2005, \$ 2,787,340 is included as a liability on the Town's statement of net assets for the remaining cost for the two sections of the landfill closure and postclosure monitoring costs of the landfill. Actual costs may change due to the finalizing of regulations with regulatory authorities, changing technology, and inflation. Also see Note 19 regarding potential legal actions related to the closure project.

#### **15. Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings, which are available to be spent based on donor restrictions.

#### **16. 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 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.

#### **17. 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 overexpenditures, however, must be funded in the subsequent year's tax rate.

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

GAAP basis balance	\$ 945,977
Snow and ice deficit	<u>256,353</u>
Statutory (UMAS) Balance	\$ <u>1,202,330</u>

## 18. Subsequent Events

### Debt

Subsequent to June 30, 2005, the Town has issued the following general obligation bonds:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bond	\$ 6,644,000	4.0 - 5.5%	11/15/05	11/15/25
General obligation bond	200,000	0.0%	11/16/05	07/15/25

\$ 4,644,000 of the proceeds were used to pay off bond anticipation notes that were reissued on 9/30/05 and matured on 11/15/05. \$ 2,000,000 of the proceeds were used to pay off bond anticipation notes that were subsequently issued on 9/30/05 and matured on 11/15/05.

Subsequent to June 30, 2005, the Town has reissued the following bond anticipation notes:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 3,819,800	4.0 - 4.6%	09/30/05	09/29/06
Bond anticipation note	4,644,000	3.3%	09/30/05	11/15/05

Subsequent to June 30, 2005, the Town has issued the following bond anticipation notes:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 816,000	4.6%	09/30/05	09/29/06
Bond anticipation note	4,421,000	4.0%	09/30/05	09/29/06
Bond anticipation note	2,000,000	3.3%	09/30/05	11/15/05
Bond anticipation note	2,300,000	4.0%	01/25/06	09/29/06
MWPAT septic interim loan	300,000	0.0%	01/17/06	Interim

Subsequent to June 30, 2005, the Town has incurred the following general obligation refunding bond:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation refunding bond	\$ 15,205,000	3.75 - 5.00%	12/15/05	12/15/19

The bonds are authorized pursuant to Massachusetts General Laws, Chapter 44, s.21AA as amended and a vote of the Board of Selectmen passed on May 16, 2005 in order to provide for the advance refunding and redemption of the 2001 through 2019 maturities of the Series A Bonds originally dated December 15, 1999 and the 2019 maturity of the Series B Bond originally dated December 15, 1999 (collectively, the "Refunded Bonds") for various projects of the Town.

## 19. Commitments and Contingencies

Landfill Litigation - There is one litigation matter pending that merits disclosure, The Welch Corporation v. Town of Middleborough, Suffolk Superior Court, Civil Action No. 06-2524-BLSI. The plaintiff is seeking damages against the Town in the amount of more than \$ 340,000. The plaintiff alleges that the Town breached a contract between it and the Town in connection with a Town construction project, and that the Town breached the covenant of good faith and fair dealing implied by law in that contract. The Town has asserted a counterclaim against the plaintiff for breach of that contract and covenant, and for the violation of G.L. c.30, §391, negligence and liquidated damages. The outcome of these cases is uncertain.

Outstanding Lawsuits - There are several other pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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.

## 20. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of

benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2005 was not available.

## 21. 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 Plymouth 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 Plymouth County Retirement Association, 11 South Russell Street, Plymouth, Massachusetts 02360.

### 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. The Town's contributions to the System for the years ended June 30, 2005, 2004, and 2003 were \$ 2,098,405, \$ 2,046,975, and \$ 1,893,342 respectively, which were equal to its annual required contributions for each of these years.

### C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

\* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2005, the Commonwealth of Massachusetts contributed \$ 3,024,403 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## 22. 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.

## 23. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2005, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity June 30, 2004 (as previously reported)	<u>Reclassification</u>	Fund Equity June 30, 2004 (as restated)
General fund	\$ 2,649,907	\$ (161,527)	\$ 2,488,380
Nonmajor funds	6,555,587	88,422	6,644,009
Landfill capital project fund	-	42,437	42,437
Private purpose funds	<u>141,151</u>	<u>30,668</u>	<u>171,819</u>
Total	\$ <u>9,346,645</u>	\$ <u>-</u>	\$ <u>9,346,645</u>

**24. Beginning Fund Balance/Net Assets Restatement**

The beginning (July 1, 2004) fund balances of the Town have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 51,702,491
To record BAN activity previously reported as bonds	( 200,000)
Other	<u>27,778</u>
As restated	<u>\$ 51,530,269</u>

Fund Basis Financial Statements:

	<u>General Fund</u>	<u>Nonmajor Funds</u>
Previously reported, as reclassified (footnote 23)	\$ 2,488,380	\$ 6,644,009
To record BAN activity previously reported as bonds	-	( 200,000)
Other reclassifications/restatements	<u>70,000</u>	<u>( 11,554)</u>
As restated	<u>\$ 2,558,380</u>	<u>\$ 6,432,455</u>