

TOWN OF MARSHFIELD, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2005

TOWN OF MARSHFIELD, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Marshfield, 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 Marshfield, 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 Marshfield, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 our 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.

In our opinion, 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 Marshfield, Massachusetts as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and respective budgetary comparison for the General Fund and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005, except for capital assets, which are dated January 5, 2006, on our consideration of Town of Marshfield, Massachusetts' internal control over financial reporting and 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 conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Marshfield, Massachusetts' basic financial statements. The management's discussion and analysis, on the accompanying pages, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Thevenin, Lynch, Bienvenue LLP

October 14, 2005, except for capital assets which are dated January 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

As management of the Town of Marshfield, Massachusetts (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the years ended June 30, 2005 and June 30, 2004.

Financial Highlights

- The assets of the Town's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$118.5 million (net assets). Of this amount, approximately \$26 million represented unrestricted net assets.
- The assets of the Town's business-type activities exceeded its liabilities at the close of the most recent fiscal year by \$30.7 million (net assets). Of this amount, approximately \$7.5 million represented unrestricted net assets.
- The total cost of all Town services for fiscal year 2005 was \$84.6 million. The total cost of governmental activities and business-type activities was \$78.9 and \$5.7 million, respectively.
- As the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$4.9 million, or approximately 7.2% of general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) budgetary comparison statements, and 4) notes to financial statements.

Government-Wide Statements

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

Statement of Net Assets: The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, in order to assess the overall health of the Town.

Statement of Activities: 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 occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes, or earned but unused sick and vacation time). This statement also presents a comparison between direct expenses and program revenues for each function of the Town.

Both of the government wide financial statements distinguish functions and activities of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions and activities that are intended to recover all or a significant portion of their costs through user fees or charges. The governmental activities of the Town include the broad functions of general government, public safety, education, public works, health and human services, culture and recreation, and the major services provided within each functional category.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation to be familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities, the Town uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

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

Governmental Funds: Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the Town's near term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

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. This comparison will assist the reader in understanding the long-term impact of the government's near term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements.

The Town maintains several governmental funds. Of the funds three (3) are considered major funds (general fund, sewer fund and stabilization fund) and are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

The basic governmental fund financial statements can be found on the accompanying pages of this report.

Proprietary Funds: Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. These funds measure economic resources using the full accrual basis of accounting. The Town maintains two types of proprietary funds.

Enterprise funds are used to report activities that the government operates more like a business. These activities become the government's business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and solid waste activities.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the Town's functions and activities. The full accrual basis of accounting is used for fiduciary funds.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

The fiduciary fund financial statements provide separate information for private purpose trust funds and agency funds. The fiduciary fund financial statements can be found on the accompanying pages of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found the accompanying pages of this report.

Government Wide Financial analysis

Governmental Activities

Statement of Net Assets: The following table reflects the condensed schedule of net assets based on the statement of net assets found on the accompanying pages of this report.

	Total Governmental Activities <u>June 30, 2005</u>	Total Governmental Activities <u>June 30, 2004</u>	% change
Current assets	\$ 51,542,179	\$ 54,894,454	(6.10)
Capital assets, net	<u>121,730,158</u>	<u>121,556,629</u>	.10
Total assets	<u>\$173,272,337</u>	<u>\$176,451,083</u>	(1.80)
Current liabilities	\$ 5,900,897	\$ 8,084,978	(27.00)
Non-current liabilities	<u>48,877,973</u>	<u>44,286,314</u>	10.40
Total liabilities	<u>\$ 54,778,870</u>	<u>\$ 52,371,292</u>	4.60
Invested in capital assets, net	\$ 78,517,309	\$ 78,634,176	(.01)
Restricted	13,816,642	19,140,514	(27.80)
Unrestricted	<u>26,159,516</u>	<u>26,305,101</u>	(.06)
Total net assets	<u>\$118,493,467</u>	<u>\$124,079,791</u>	(4.50)

The Town's net assets exceeded its liabilities at year ending June 30, 2005 and 2004 by \$118,493,467 and \$124,079,791 (presented as net assets), respectively. Included in these amounts are unrestricted net assets of \$26,159,516 and \$26,305,101, respectively

The components of net assets include investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$78,517,309 and \$73,634,176 at June 30, 2005 and 2004 indicating the amount of capital debt does not exceed the net book value of the Town's capital assets. The Town uses these capital assets to service the community; therefore they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

Statement of Activities: The Town's total net assets (primary government) decreased by \$5,586,324 and increased by \$2,604,887 during fiscal year 2005 and 2004, respectively.

This summary schedule of activities is based upon the statement found on the accompanying pages of this report:

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

Town of Marshfield Summary of Schedule of Governmental Activities For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>% Change</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 5,768,519	\$ 5,885,116	(2.0)
Operating grants and contributions	20,256,840	21,927,806	(7.6)
Capital grants and contributions	<u>454,821</u>	<u>1,880,964</u>	(75.9)
Total program revenues	26,480,180	29,693,886	(10.8)
General Revenues:			
Property taxes levied	36,480,384	33,992,431	7.4
Excise taxes	3,458,124	3,196,830	8.2
Penalties and interest on taxes	255,291	205,069	24.5
Grants and contributions not restricted	5,253,422	5,443,606	(3.5)
Investment income	694,329	621,491	11.7
Departmental	<u>712,029</u>	<u>786,600</u>	(9.5)
Total general revenues	<u>46,853,579</u>	<u>44,246,027</u>	5.9
Total Revenues	\$ 73,333,759	\$ 73,939,913	(.8)
Expenses:			
General government	\$ 14,326,978	\$ 12,467,991	15.0
Public safety	8,299,401	7,652,420	8.5
Education	43,164,028	39,853,325	8.3
Public works	8,702,961	7,131,393	21.4
Health and human services	636,384	662,223	(3.9)
Culture and recreation	1,048,802	1,570,381	(33.3)
Interest on long term debt	1,888,162	1,043,759	(6.6)
State and county charges	<u>826,165</u>	<u>707,303</u>	16.8
Total Expenses	78,892,881	71,088,795	10.9
Special items			
Loss on disposal of capital assets	(27,202)	(221,514)	87.8
Transfers, net	<u>-</u>	<u>(24,717)</u>	100.0
	<u>(27,202)</u>	<u>(246,231)</u>	89.0
Change in net assets	<u>\$(5,586,324)</u>	<u>\$ 2,604,887</u>	

Total Revenues

Total governmental activities revenue for 2005 and 2004 for the Town are comprised of general revenue of \$46,853,579 and \$44,246,027 charges for services of \$5,768,519 and \$5,885,116, operating grants and contributions of \$20,256,840 and \$21,927,806, capital grant and contribution revenue of \$454,821 and \$1,880,964, respectively. Fiscal year 2004 revenues include accruals for interest reimbursements on school building projects and MWPAT drawdowns and subsidies which has resulted, in part, in a significant change/decrease in net assets in the current year.

General Revenues

Property tax revenues are the Town's largest revenue source at \$36,480,384 and \$33,992,431 representing 78% and 77% of general revenues for 2005 and 2004, respectively. In 2005, the assessed tax valuation base is \$4,130,539,758 up from \$3,534,171,843 assessed in the prior year, showing a 17% increase due to new construction and an increase in property valuation. Fiscal year 2005 was a revaluation year for real property.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

Program Revenues

For fiscal year 2005 and 2004, charges for services are \$5,768,519 and \$5,885,116 representing a variety of departmental revenues, respectively.

For fiscal year 2005 and 2004, operating grants and contributions of \$20,256,840 and \$21,927,806 represent several federal and state grants restricted to specific grant conditions, respectively. This accounts for approximately 27.6 % and 29.8% of the total Town governmental activities revenues. Included in these amounts is state aid, accrued MWPAT subsidies and "on-behalf" payments made by the Massachusetts Teachers' Retirement Board.

Expenses

For the year ended June 30, 2005 and 2004, expenses for governmental activities totaled \$78,892,881 and \$71,088,795, respectively. Education continues to be one of the Town's highest expenditures representing \$43,164,028 and \$39,853,325 or 54.7% and 56.1% of the total Governmental expenses. Payments made by the Massachusetts Teachers' Retirement Board (\$5.0 million) have been classified as a general government expenditure in fiscal year 2005.

Business-type Activities

Statement of Net Assets: The following table provides a summary schedule of business-type activities, based upon the statement found on the accompanying pages of this report.

	2005	2005	2005	2004
	<u>Solid Waste</u>	<u>Water</u>	<u>Total</u>	<u>Total</u>
Current assets	\$1,793,526	\$ 6,632,320	\$ 8,425,846	\$ 8,210,395
Capital assets, net	1,689,313	22,499,751	24,189,064	24,192,022
Total assets	<u>\$3,482,839</u>	<u>\$29,132,071</u>	<u>\$32,614,910</u>	<u>\$32,402,417</u>
Current liabilities	\$ 329,289	\$ 337,667	\$ 666,956	\$ 1,058,712
Non-current liabilities	574,778	626,807	1,201,585	1,193,413
Total liabilities	<u>\$ 904,067</u>	<u>\$ 964,474</u>	<u>\$ 1,868,541</u>	<u>\$ 2,252,125</u>
Invested in capital assets, net	\$1,494,313	\$21,714,751	\$23,209,064	\$22,847,022
Unrestricted	1,084,459	6,452,846	7,537,305	7,303,270
Total net assets	<u>\$2,578,772</u>	<u>\$28,167,597</u>	<u>\$30,746,369</u>	<u>\$30,150,292</u>

The Town's business-type activities' assets exceeded its liabilities at year ending June 30, 2005 and 2004 by \$30,746,369 and \$30,150,292 (presented as net assets), respectively. Included in these amounts are unrestricted net assets of \$7,537,305 and \$7,303,270 respectively.

The components of net assets include investment in capital assets such as land, buildings, equipment, and infrastructure (water mains, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$23,209,064 and \$22,847,022 at June 30, 2005 and 2004 indicating the amount of capital debt does not exceed the net book value of the Town's capital assets.

Statement of Activities: The Town's total net assets (business-type activities) increased by \$596,077 and \$428,970 during fiscal year 2005 and 2004.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

	2005 <u>Solid Waste</u>	2005 <u>Water</u>	2005 <u>Total</u>	2004 <u>Total</u>
Operating revenues:				
Charge for services/departmental and other	\$ 2,975,934	\$ 3,249,185	\$ 6,225,119	\$6,719,919
Total operating revenues	<u>2,975,934</u>	<u>3,249,185</u>	<u>6,225,119</u>	<u>6,719,919</u>
Total Revenues	2,975,934	3,249,185	6,225,119	6,719,919
Expenses:				
Salaries and wages	360,887	810,287	1,171,174	1,068,404
Operating expenses	2,697,037	1,187,313	3,884,350	4,617,167
Depreciation	67,813	611,481	679,294	651,466
Total operating expenses	<u>3,125,737</u>	<u>2,609,081</u>	<u>5,734,818</u>	<u>6,337,037</u>
Operating Income (Loss)	(149,803)	640,104	490,301	382,882
Non-operating income (expense)				
Intergovernmental		47,500	47,500	4,145
Investment income	20,884	73,371	94,255	69,700
Interest expense	(7,579)	(28,400)	(35,979)	(52,474)
Total non-operating revenue, net	13,305	92,471	105,776	21,371
Income (Loss) before transfers	(136,498)	732,575	596,077	404,253
Transfers				
Transfers in	-	-	-	24,717
Change in net assets	(136,498)	732,575	596,077	428,970
Net assets – beginning of year	<u>2,715,270</u>	<u>27,435,022</u>	<u>30,150,292</u>	<u>29,721,322</u>
Net assets – end of year	<u>\$ 2,578,772</u>	<u>\$ 28,167,597</u>	<u>\$30,746,369</u>	<u>\$30,150,292</u>

Operating Revenues

Charges for services for the Town's business-type activities for the years 2005 and 2004 are \$6,225,119 and \$6,106,268, respectively. These amounts reflect receipts for water rates and trash fees collected. Departmental revenue for the Town's business-type activities for the years 2005 and 2004 are \$34,761 and \$613,651, respectively. These amounts represent various miscellaneous departmental receipts. Certain receipts included in departmental receipts have been classified in charges for services in fiscal 2005.

Operating Expenses

For the year ended June 30, 2005 and 2004, expenses for the Town's business-type activities totaled \$5,734,818 and \$6,337,037. Included in this 2005 total is \$1,171,174 (20.3%) of salaries and wages and \$679,294 (11.9%) of depreciation expense. The remaining \$3,884,350 (67.8%) represents other operational expenditures.

Financial Analysis of the Government's Fund Financial Statements

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financial 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.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

As of June 30, 2005 and 2004, the Town's governmental funds reported combined ending fund balances of \$24,418,616 and \$28,319,745, a decrease of \$3,901,129 and \$7,219,641, respectively. Approximately \$21.3 and \$25.2 million constitutes unreserved fund balance, of this amount \$2,631,874 and \$3,127,424 has been appropriated for the next fiscal year, respectively. The remainder of the fund balance is reserved to indicate it is not available for new spending because it has already been committed to liquidate contracts; continued appropriations for capital outlay and improvement purposes; non-current loans receivable; non expendable permanent fund balances; and community preservation program statutory purpose services.

The general fund is the chief operating fund of the Town. At June 30, 2005 and 2004, unreserved fund balance of the general fund is \$4,920,301 and \$6,100,057 respectively. 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 7.2% and 9.5% of total general fund expenditures, while total fund balance represents 9.8% and 14.4% at June 30, 2005 and 2004, respectively.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. During 2002 the Government Finance Officers Association (GFOA) issued a recommendation that at a minimum, general purpose governments, regardless of size maintain unreserved fund balance in their general fund of no less than five to fifteen percent of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. As of June 30, 2005 and 2004 the Town's unreserved fund balance is 7.9 % and 10.2 % of the general fund operating revenues.

The total general fund balance of the Town decreased by \$2,523,224 or 27.5 % during 2005 and decreased by \$905,941 or 8.9% during 2004. For 2005 this occurred because fund expenditures increased 7.4% and revenues increased 5.0%. Net transfers in(out) from other funds during 2005 and 2004 were \$3,364,434 and \$3,247,650, respectively. Current year transfers included \$3,165,434 utilized from the Town's stabilization fund.

Property tax growth represents a combination of the annual increase allowed in the levy by proposition 2 ½ and new growth. The Town's total levy grew 4.2% and 4.4 % in 2005 and 2004 (including new growth).

General Fund Budgetary Highlights

The difference between the original budget of \$65,901,772 and the final budget of \$64,605,873 is due to approximately \$440,000 of additional appropriations at special town meetings, less approximately \$1,736,000 in encumbrances being carried over to the subsequent fiscal year.

Capital Asset and Debt Administration

Governmental Activities

Capital Assets: The Town's investment in capital assets for governmental activities as of June 30, 2005 and 2004, amounts to \$121,730,158 and \$121,556,629, which is net of accumulated depreciation of \$50,841,926 and \$46,197,773. The investment in capital assets includes land; buildings; improvements; machinery and equipment and infrastructure.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

The table below represents a summary of the Town's capital assets by category (in millions):

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Land	\$ 16.5	\$ 15.7
Construction in progress	9.3	9.2
Buildings and improvements	48.7	47.1
Machinery, equipment, and vehicles	18.0	15.9
Books, software, and other	2.9	2.9
Infrastructure	<u>77.0</u>	<u>76.9</u>
	<u>\$172.4</u>	<u>\$167.7</u>

Major capital asset events during 2005 include the following:

- Approximately \$2.0 million of school and other building improvements placed in service from construction in progress.
- Approximately \$2.0 million of additions to construction in progress, including approximately \$975,000 of sewer related infrastructure.
- Approximately \$800,000 additions in land.
- Approximately \$1.4 million of various machinery, equipment and vehicles placed in service. Approximately \$281,000 of related retirement of vehicles, machinery and equipment.

Business-type Activities

Capital Assets: The Town's investment in capital assets for business-type activities as of June 30, 2005 and 2004, amounts to \$24,189,064 and \$24,192,022, which is net of accumulated depreciation of \$9,886,687 and \$9,224,739. The investment in capital assets includes land; buildings; improvements; machinery and equipment and infrastructure.

The table below represents a summary of the Town's business-type activities capital assets by category (in millions):

	Business-type Activities	
	<u>2005</u>	<u>2004</u>
Land	\$ 2.0	\$ 2.0
Construction in progress	.8	.5
Buildings and improvements	3.0	3.0
Machinery , equipment, and vehicles	1.0	.9
Infrastructure		
(mains, wells, tanks, meters, valves)	<u>27.2</u>	<u>27.0</u>
Total	<u>\$34.0</u>	<u>\$33.4</u>

Capital asset events during 2005 include the following:

- Various additions and retirements of equipment and vehicles.
- Additional construction of water mains (construction in progress) and installation of hydrants and meters.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

Long Term Debt

Governmental Activities

At June 30, 2005 and 2004, the Town's governmental activities had total bonded debt outstanding of \$43,212,849 and \$42,922,453, respectively. This debt is a general obligation of the Town's governmental activities.

The Town's governmental activities had no short-term debt obligations outstanding in either 2005 or 2004.

Business-type Activities

At June 30, 2005 and 2004, the Town's business-type activities had total bonded debt outstanding of \$980,000 and \$1,345,000 respectively. This debt is supported by water rates and trash fees.

The Town's business-type activities had no short-term debt outstanding in either 2005 or 2004.

The Town of Marshfield maintains bond rating with Standard & Poor's and Moody's Investor Service of AA-, and Aa3, respectively.

Economic Factors and Next Year's Budgets and Rates

The Town has increased its property tax levy by 4.7 % which includes new growth.

The general fund operating budget increased 2.0 % over the FY 05 budget. The increase is attributable to rising fixed costs, such as health insurance, other insurances, debt service, and pension costs. Operational budgets were not increased for fiscal year 2006.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. Questions concerning any information provided in this report or requests for additional information should be addressed to Town of Marshfield, Attn: Town Administrator, 870 Moraine Street, Marshfield, MA 02050.

BASIC FINANCIAL STATEMENTS

TOWN OF MARSHFIELD, MASSACHUSETTS

Statement of Net Assets

June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 24,409,485	\$ 6,622,038	\$ 31,031,523
Investments	4,953,644		4,953,644
Receivables, net of allowance for uncollectibles	22,179,050	1,803,808	23,982,858
Capital assets, net of accumulated depreciation	121,730,158	24,189,064	145,919,222
Total assets	<u>\$ 173,272,337</u>	<u>\$ 32,614,910</u>	<u>\$ 205,887,247</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 4,876,997	\$ 375,116	\$ 5,252,113
Accrued interest payable	325,324	6,440	331,764
Provision for refund of paid taxes	698,576		698,576
Noncurrent liabilities			
Due within one year	4,012,273	285,400	4,297,673
Due in more than one year	44,865,700	1,201,585	46,067,285
Total liabilities	<u>54,778,870</u>	<u>1,868,541</u>	<u>56,647,411</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	78,517,309	23,209,064	101,726,373
Restricted	13,816,642		13,816,642
Unrestricted	<u>26,159,516</u>	<u>7,537,305</u>	<u>33,696,821</u>
Total net assets	<u>118,493,467</u>	<u>30,746,369</u>	<u>149,239,836</u>
Total liabilities and net assets	<u>\$ 173,272,337</u>	<u>\$ 32,614,910</u>	<u>\$ 205,887,247</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MARSHFIELD, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2005

Functions/Programs Primary government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities
			Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government	\$ 14,326,978	\$ 268,322	\$ 5,300,408	\$ -	\$ (8,758,248)	\$ -
Public safety	8,299,401	1,513,401	292,231		(6,493,769)	
Education	43,164,028	1,195,364	13,035,350		(28,933,314)	
Public works	8,702,961	2,172,660	905,455	454,821	(5,170,025)	
Health and human services	636,384	169,512	171,841		(295,031)	
Culture and recreation	1,048,802	449,260	249,327		(350,215)	
Interest	1,888,162		302,228		(1,585,934)	
State and county charges	826,165	-	-	-	(826,165)	
Total governmental activities	78,892,881	5,768,519	20,256,840	454,821	(52,412,701)	-
Business-type activities						
Solid Waste	3,133,316	2,975,934	20,884		(136,498)	
Water	2,637,481	3,249,185	120,871	-	732,575	
Total business-type activities	5,770,797	6,225,119	141,755	-	596,077	
Total primary government	\$ 84,663,678	\$ 11,993,638	\$ 20,398,595	\$ 454,821	(52,412,701)	596,077
General revenues						
Property taxes and payments in lieu, net of allowance for uncollectibles					36,480,384	36,480,384
Excise taxes					3,458,124	3,458,124
Penalties and interest on taxes					255,291	255,291
Grants and contributions not restricted to specific programs					5,253,422	5,253,422
Investment income					694,329	694,329
Departmental					712,029	712,029
Special items						
Loss on disposal of capital assets					(27,202)	(27,202)
Total general revenues and special items					46,826,377	46,826,377
Change in net assets					(5,586,324)	(4,990,247)
Net assets - beginning of year					124,079,791	30,150,292
Net assets - end of year					\$ 118,493,467	\$ 30,746,369
						\$ 149,239,836

The accompanying notes are an integral part of these financial statements.

TOWN OF MARSHFIELD, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2005

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Stabilization Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 10,655,619	\$ 3,644,382	\$ 878,308	\$ 9,231,176	\$ 24,409,485
Investments	379,312		3,482,301	1,092,031	4,953,644
Receivables	16,706,952	2,865,723	-	2,053,147	21,625,822
Total assets	<u>\$ 27,741,883</u>	<u>\$ 6,510,105</u>	<u>\$ 4,360,609</u>	<u>\$ 12,376,354</u>	<u>\$ 50,988,951</u>
<u>LIABILITIES</u>					
Accounts payable and other current liabilities	\$ 3,879,133	\$ 260,156	\$ -	\$ 737,706	\$ 4,876,995
Provision for refund of paid taxes	698,576				698,576
Deferred revenue	16,508,167	2,865,723	-	1,620,874	20,994,764
Total liabilities	21,085,876	3,125,879	-	2,358,580	26,570,335
<u>FUND BALANCES</u>					
Reserved for					
Encumbrances and continued appropriations	1,735,706	95,113			1,830,819
Unreserved:					
General Fund	4,920,301				4,920,301
Special revenue funds		3,289,113	4,360,609	6,423,278	14,073,000
Capital projects funds				2,540,489	2,540,489
Permanent fund	-	-	-	1,054,007	1,054,007
Total fund balances	<u>6,656,007</u>	<u>3,384,226</u>	<u>4,360,609</u>	<u>10,017,774</u>	<u>24,418,616</u>
Total liabilities and fund balances	<u>\$ 27,741,883</u>	<u>\$ 6,510,105</u>	<u>\$ 4,360,609</u>	<u>\$ 12,376,354</u>	<u>\$ 50,988,951</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances of governmental funds	\$ 24,418,616
Capital assets used in governmental activities are not financial resources and not reported in funds. The cost the assets is \$172,572,085, and accumulated depreciation is \$50,841,927	121,730,158
Receivables and other long-term assets are not available to pay for current-period expenditures and are deferred in funds, net of allowance for uncollectibles	21,547,992
Debt and other long-term liabilities are not due and payable in the current period and are not included in funds.	(48,877,974)
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.	(325,325)
Net assets of governmental activities	<u>\$ 118,493,467</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MARSHFIELD, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u>	<u>Sewer Fund</u>	<u>Stabilization Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 35,535,596	\$ -	\$ -	\$ 771,271	\$ 36,306,867
Excise taxes	3,371,184			26,967	3,398,151
Licenses, permits and fees	958,056			664,890	1,622,946
Penalties and interest	255,291				255,291
Investment income	391,475	51,859	138,388	111,004	692,726
Charge for services	764,596	2,078,088		1,834,394	4,677,078
Departmental and other	124,871			451,946	576,817
Intergovernmental	<u>21,371,002</u>	<u>482,595</u>	<u>-</u>	<u>4,758,394</u>	<u>26,611,991</u>
Total revenues	62,772,071	2,612,542	138,388	8,618,866	74,141,867
Expenditures					
Current:					
General government	13,386,328			1,192,177	14,578,505
Public safety	7,857,637			457,292	8,314,929
Education	37,355,713			4,602,276	41,957,989
Public works	3,363,750	3,260,006		1,602,612	8,226,368
Human services	623,091			121,373	744,464
Culture and recreation	743,053			1,119,953	1,863,006
State and county assessments	826,165				826,165
Debt service	<u>4,503,992</u>	<u>908,578</u>	<u>-</u>	<u>-</u>	<u>5,412,570</u>
Total expenditures	<u>68,659,729</u>	<u>4,168,584</u>	<u>-</u>	<u>9,095,683</u>	<u>81,923,996</u>
Revenues over (under) expenditures	(5,887,658)	(1,556,042)	138,388	(476,817)	(7,782,129)
Other financing sources (uses)					
Proceeds from issuance of debt		965,000		2,916,000	3,881,000
Transfers in from other funds	3,364,434			1,510	3,365,944
Transfers out to other funds	<u>-</u>	<u>-</u>	<u>(3,165,434)</u>	<u>(200,510)</u>	<u>(3,365,944)</u>
Total other financing sources (uses)	<u>3,364,434</u>	<u>965,000</u>	<u>(3,165,434)</u>	<u>2,717,000</u>	<u>3,881,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(2,523,224)	(591,042)	(3,027,046)	2,240,183	(3,901,129)
Fund balance, beginning of year	<u>9,179,231</u>	<u>3,975,268</u>	<u>7,387,655</u>	<u>7,777,591</u>	<u>28,319,745</u>
Fund balance, end of year	<u>\$ 6,656,007</u>	<u>\$ 3,384,226</u>	<u>\$ 4,360,609</u>	<u>\$ 10,017,774</u>	<u>\$ 24,418,616</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF MARSHFIELD, MASSACHUSETTS

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds To Statement of Activities For the Year Ended June 30, 2005

Revenues and other financing sources (under)	
expenditures and other financing uses	\$ (3,901,129)

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

Capital outlays during the fiscal year	5,099,199
Depreciation recorded for the fiscal year	(4,898,468)
Disposal of capital assets	(27,202)

Revenues are recognized on the modified accrual basis of accounting in the fund financial statements, but are recognized on the accrual basis of accounting in the government-wide financial statements.

Net change in deferred revenue, net of allowance for uncollectible accounts	(808,109)
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The issuance and repayment of long-term debt are recorded as other financing sources or uses in the fund financial statements, but have no effect on net assets in the government-wide financial statements. Also, governmental funds report issuance costs, premiums, discounts and similar items as expenditures when paid, whereas these amounts are deferred and amortized on a government-wide basis.

Principal payments on long-term debt	3,607,241
Proceeds from issuance of long-term debt	(3,881,000)

The fund financial statements record interest on long-term debt when due and revenue from related subsidies when received. The government-wide financial statements report interest on long-term debt and revenue on subsidies when incurred.

Net change in accrued interest expense	(82,833)
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Certain liabilities are not funded through the use of current financial resources and, therefore, are not reported in the fund financial statements, however, these liabilities are reported in the government-wide financial statements. The net change in these liabilities is reflected as an expense in the Statement of Activities. Changes in liabilities are as follows:

Compensated absences	(694,023)
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Change in net assets of governmental activities	<u>\$ (5,586,324)</u>
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TOWN OF MARSHFIELD, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis
General Fund - Budget and Actual
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 34,873,450	\$ 35,252,404	\$ 35,596,782	\$ 344,378
Excise taxes	2,481,136	2,481,136	3,371,184	890,048
Licenses, permits, and fees	734,985	734,985	958,056	223,071
Penalties and interest	205,069	205,069	255,291	50,222
Investment interest	384,618	384,618	391,475	6,857
Departmental and other	644,234	644,234	889,467	245,233
Intergovernmental	<u>16,014,835</u>	<u>16,014,835</u>	<u>16,181,748</u>	<u>166,913</u>
Total revenues	55,338,327	55,717,281	57,644,003	1,926,722
Expenditures				
General government	10,377,023	9,663,979	9,218,857	445,122
Public safety	7,616,858	7,923,896	7,857,637	66,259
Education	38,041,837	37,450,778	37,355,713	95,065
Public works	3,117,371	2,853,671	3,482,567	(628,896)
Human services	656,203	652,832	623,091	29,741
Culture and recreation	778,373	746,610	743,053	3,557
State and county assessments	766,218	766,218	826,165	(59,947)
Debt service	<u>4,547,889</u>	<u>4,547,889</u>	<u>4,503,992</u>	<u>43,897</u>
Total expenditures	<u>65,901,772</u>	<u>64,605,873</u>	<u>64,611,075</u>	<u>(5,202)</u>
Revenues over (under) expenditures	(10,563,445)	(8,888,592)	(6,967,072)	1,921,520
Other financing sources (uses)				
Transfers in from other funds	<u>4,505,034</u>	<u>4,505,034</u>	<u>4,505,034</u>	-
Total other financing sources	<u>4,505,034</u>	<u>4,505,034</u>	<u>4,505,034</u>	-
Revenues and other financing sources over (under) expenditures and other financing uses	(6,058,411)	(4,383,558)	(2,462,038)	<u>\$ 1,921,520</u>
Fund balance, beginning of year			<u>9,617,836</u>	
Fund balance, end of year			<u>\$ 7,155,798</u>	
Other budget items				
Free cash appropriations	\$ 3,077,423	\$ 3,132,276		
Overlay surplus appropriations	50,000	56,000		
Carryover encumbrances and articles	3,079,175	1,343,469		
Funding of prior year deficits	<u>(148,187)</u>	<u>(148,187)</u>		
Total other budget items	<u>6,058,411</u>	<u>4,383,558</u>		
Net budget	<u>\$ -</u>	<u>\$ -</u>		

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Note 1. Organization and Reporting Entity

A. Organization

The Town of Marshfield, Massachusetts (the "Town"), was incorporated in 1640, and has a Town Meeting form of government with administrative authority vested in a three member Board of Selectmen and an appointed Town Administrator. The Town's major operations include police and fire protection, parks, library, recreation, public works, education, and general administrative services. In addition, the Town owns and operates a water system, sewer system and a solid waste transfer station.

B. Reporting Entity

General

The accompanying financial statements present the Town of Marshfield (the primary government) and its component units. Component units are included in the reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Town of Marshfield did not identify any component units requiring inclusion in the accompanying financial statements.

Joint Ventures

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specific recipients. The following is a list of the Town's joint ventures, their purpose, and the annual assessment paid by the Town in 2005. Financial statements may be obtained from each joint venture by contacting them directly. The Town does not have an equity interest in any joint venture.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>FY 2005 Assessment</u>
Massachusetts Bay Transportation Authority 45 High Street, Boston, MA 02110	To provide regional transportation services	\$ 218,836
South Shore Regional School District 476 Webster Street, Hanover, MA 02339	To provide vocational education to students Grades 9-12	\$254,970

Related Organizations

The Marshfield Housing Authority is a public body, politic and corporate organized and existing under Massachusetts General Laws, Chapter 121B and thus, the Town has no accountability for this organization. The Board of Commissioners, four who are elected and the fifth appointed by the Commonwealth, are legally responsible for the overall operation.

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town is discussed below.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town's police and fire protection, parks, library and recreation, public works, schools, sewer operations, and general administrative services are classified as governmental activities. The Town's water and solid waste activities are classified as business-type activities.

Government-wide Statements

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts—invested in capital assets (net of related debt); restricted net assets, and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities. Gross expenses (including depreciation) are reduced on the Statement of Activities by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue.

Certain costs, such as pension benefits, property, liability and health insurance, state assessments, among others are not allocated among the Town's functions and are included in general government expenses in the Statement of Activities.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds:

General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town's sewer fund is classified as a special revenue fund.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Debt service funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. Currently, the Town does not utilize a debt service fund.

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Permanent funds are used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues, has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or establishes fees and charges based on a pricing policy designed to recover similar costs. Currently, the Town reports its water and solid waste funds as enterprise funds.

Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Town on a cost-reimbursement basis. Currently, the Town does not utilize internal service funds.

Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds. The following is a description of the fiduciary funds of the Town:

Private purpose trust funds account for resources legally held in trust for the benefit of persons and organizations other than the Town. Since these funds cannot be used for providing Town services, they are excluded from the Town's government-wide financial statements.

Agency funds are used to hold funds on behalf of parties other than the Town, including federal and state agencies and public school student activities. Agency funds are custodial in nature and do not involve measurement of results of operations.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town may electively add funds, as major funds, which have specific community focus. The nonmajor funds are combined in a column in the fund financial statements. Currently, the Town has determined its sewer and stabilization funds to be major funds.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

B. Measurement Focus and Basis of Accounting

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.

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

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

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

C. Cash and Investments

The Town has not adopted formal deposit and investment policies. The Town Treasurer manages funds pursuant to Massachusetts General Laws.

For the purposes of the Statement of Net Assets, and the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash and certificates of deposit are reported at carrying value which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in these notes.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

D. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

E. Receivables

Receivables consist of all revenues earned at year-end and not yet received, net of an allowance for uncollectible amounts. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The Town classifies approximately 1% of outstanding personal property taxes and motor vehicle and 14% of boat excise as uncollectible for financial reporting purposes. The Town estimates 16.4% of ambulance charges outstanding to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectible. Outstanding water, sewer and transfer station charges are also subject to lien procedures; accordingly, such amounts are considered to be fully collectible.

F. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

Prior to July 1, 2002, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

➤ Buildings & Improvements	20-40 years
➤ Easements	20 years
➤ Machinery and Equipment	3-20 years
➤ Fire Apparatus	15 years
➤ Computer Related	3-10 years
➤ Textbooks and Related	5-20 years
➤ Vehicles	5 years
➤ Communications Equipment	7 years
➤ Infrastructure	20-50 years
➤ Seawalls	20 years

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

G. Long-term Obligations

The accounting treatment of long-term obligations depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term obligations consist primarily of notes and bonds payable, accrued compensated absences, and post closure monitoring costs for municipal landfills.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

H. Compensated Absences

The Town's policies and provisions of bargaining unit contracts regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term obligations in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

I. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Permanent fund balances are classified as reserved and are further classified between expendable and non-expendable portions. Proprietary fund equity is classified the same as in the government-wide statements.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

J. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results will differ from those estimates.

K. Total columns

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

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

Note 3. Stewardship, Compliance and Accountability

A. Property tax calendar and limitations

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to lien, interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide property tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½ % of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2 ½ %, plus taxes levied on certain property newly added to the tax rolls ("new growth"). Certain Proposition 2 ½ taxing limitations can be overridden by a town-wide referendum vote.

B. Budgetary basis of accounting

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenue and transfers projected to be received by the Town, including available surplus funds.

The budgets for all departments and operations of the Town, except that of the public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by vote of Town Meeting. All general fund and enterprise fund functions are budgeted, the town does not have legally adopted annual budgets for its special revenue funds. Budgets for various special revenue funds utilized to account for specific grant programs are established in accordance with the requirements of the Commonwealth or other grantor agencies.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column of the Statements of Revenues, Expenditures and Changes in Fund Balance – Budgetary Basis, are presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis is that all budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenues when levied (budget) as opposed to when susceptible to accrual (GAAP). A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the year ended June 30, 2005, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
As reported on a budgetary basis	\$ 57,644,003	\$ 64,611,075	\$ 4,505,034
Adjustment of property tax revenues to modified accrual basis	(61,186)		
Adjustment for FEMA snow removal assistance	138,900	138,900	
State funded teacher's pension	5,050,354	5,050,354	
Indirect costs of other funds recorded as operating transfers on budgetary basis, net of interfund charges	-	(1,140,600)	(1,140,600)
As reported on a GAAP basis	<u>\$ 62,772,071</u>	<u>\$ 68,659,729</u>	<u>\$ 3,364,434</u>

A reconciliation of the budgetary - basis to GAAP-basis for the Sewer Fund for the year ended June 30, 2005, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing Sources (Uses)</u>
As reported on a budgetary basis	\$2,236,547	\$ 2,036,778	\$(365,701)
MWPAT subsidies received	371,609	371,609	
MWPAT drawdown	4,386		
Sewer fund capital projects activity not included with budgetary activity		1,233,863	965,000
Timing of expenditures		160,633	
Indirect costs recorded as operating transfers			
On budgetary basis, net interfund charges	-	365,701	365,701
As reported on a GAAP basis	<u>\$2,612,542</u>	<u>\$ 4,168,584</u>	<u>\$ 965,000</u>

C. Fund equities

Operations of the various Town funds for fiscal 2005 were funded in accordance with the General Laws of Massachusetts. The Town classifies fund equity in the fund financial statements as either reserved or unreserved fund balance. Unreserved fund balance is further broken down between designated and undesignated.

Fund balance reserved for encumbrances and continued appropriations consists of the budgeted amounts carried over to the next fiscal year for operating costs committed at June 30 and the balance of appropriations for capital expenditures and longer term projects which are continued until completion of the authorized project. Encumbrances outstanding at year-end are reported as a reservation of fund balance and do not constitute expenditures or liabilities.

Fund balance designated for expenditure consists of available funds (free cash) and other available funds from unreserved fund equity appropriated by Town Meeting action to be used in funding next year's operations.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Deficit fund equity consists of the excess of expenditures over appropriations, in the General Fund. Bond Anticipation Note proceeds are not permanent funding and therefore do not represent a funding source for capital projects. Capital Project Fund deficits will occur and will be funded in future years through the issuance of long-term debt.

At June 30, 2005, the Town had the following general fund equities in the fund financial statements:

Reserved for encumbrances and continued appropriations	\$ 1,735,706
Unreserved:	
Undesignated	2,911,085
Designated for expenditure	2,631,874
Snow and ice and other deficits	(659,029)
Designated other	<u>36,371</u>
Total unreserved	<u>4,920,301</u>
Total General Fund Equities	<u>\$ 6,656,007</u>

All other governmental fund balances are reported on the fund basis Balance Sheet as Unreserved Fund Balance, reported in their respective fund types.

D. Restricted Net Assets

Certain net assets reported as special revenue funds in the Town's fund basis Balance Sheet including the Town's Stabilization Fund and receipts reserved for appropriation from proceeds of sale of real estate and insurance reimbursements are classified as unrestricted net assets because they are available for appropriation to fund the general operations of the Town.

Restricted net assets on the government-wide statement of net assets consist of the following:

Capital Project Fund balances	\$ 2,268,076
Special Revenue Fund balances:	
Sewer Fund	3,919,231
Community Preservation Act Fund	3,710,243
Other Special Revenue Funds	2,865,085
Permanent Funds:	
Expendable	211,982
Non-expendable	<u>842,025</u>
Total restricted net assets	<u>\$13,816,642</u>

Note 4. Cash and investments

Massachusetts General Laws, Chapter 44, Section 54 and 55, place certain limitations on cash deposits and investments available to the Town. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Town may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Town may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Town may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

The Town maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. The Town does not have a formal deposit policy for custodial credit risk. At June 30, 2005 deposits totaled \$33,466,756 and had a carrying amount of \$32,273,562. Of the deposit amounts, \$32,718,637 was exposed to custodial credit risk at June 30, 2005 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. Subsequent to year end, the Town entered agreements with three banks for amounts held in excess of the \$100,000 FDIC insurance limit, to be fully collateralized by assets being held by a third party, in the name of the banks.

As of June 30, 2005, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>	<u>Weighted Average Days to Maturity</u>
Primary government:				
Massachusetts Municipal Depository Trust (MMDT)	\$ 515,796	\$ 515,796	N/A	90 days or less
Governmental money market funds	357,221	357,219	AAA	90 days
Common stock	123,492	109,813	N/A	N/A
Government securities –Treasury notes	20,573	20,000	AAA	174 days
Government securities –Federal agencies	2,278,713	2,300,000	AAA	477-975 days
Mutual funds - bonds	49,663	50,000	AAA	8.99 years
Certificates of deposit	<u>1,608,186</u>	<u>1,623,865</u>	FDIC insured	501 days
Total primary government	<u>4,953,644</u>	<u>4,976,693</u>		
Fiduciary funds:				
MMDT	<u>13,993</u>	<u>13,993</u>	N/A	90 days or less
Total fiduciary funds	<u>13,993</u>	<u>13,993</u>		
Grand total investments	<u>\$4,967,637</u>	<u>\$4,990,686</u>		

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party 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 an investment policy covering custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have a formal investment policy which limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The approximate maturities of the Town's debt investments are disclosed in the above table.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore may have no rating disclosed in the above table. Equity securities and equity mutual funds are not rated as to credit risk. The Town does not have an investment policy which would limit its investment choices.

Note 5. Receivables

The Town reports the aggregate amount of receivables in the accompanying Statement of Net Assets and Balance Sheet. In addition, governmental funds report, on the Balance Sheet, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues are also reported on the Statement of Net Assets.

The Town includes the following receivables for individual major and non-major governmental funds, and fiduciary funds in the aggregate, including applicable allowances for uncollectible amounts and amounts deferred and unearned:

<u>Receivable type</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectible</u>	<u>Net Amount</u>	<u>Deferred Revenue</u>
Real estate and personal property taxes	\$ 698,576	\$	\$ 698,576	\$ 499,791
Tax liens, deferrals and foreclosures	1,050,988		1,050,988	1,050,988
Excise taxes	450,251	9,122	441,129	450,251
Charges for service	1,080,793	109,650	971,143	1,080,793
Other	14,923		14,923	14,923
Intergovernmental:				
School Building Assistance	13,708,402		13,708,402	13,708,402
Commonwealth highway awards	830,826		830,826	830,826
Community Preservation matching funds	777,289		777,289	777,289
Accrued MWPAT subsidies	2,090,628		2,090,628	2,090,628
MWPAT drawdowns	362,895		362,895	362,895
Grants and other	560,251		560,251	127,978
Totals – governmental funds	21,625,822		21,507,050	<u>\$20,994,764</u>
Accrual of unbilled sewer charges	672,000	-	672,000	
Totals – governmental activities	<u>\$22,297,822</u>	<u>\$ 118,772</u>	<u>\$22,179,050</u>	

Receivables for the Town's business-type activities consist of the following:

<u>Receivable type</u>	<u>Gross Amount</u>
Solid waste charges	\$ 327,616
Water charges and betterments	1,476,192
Totals	<u>\$1,803,808</u>

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>(restated) Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 15,703,124	\$ 800,900	\$	\$ 16,504,024
Construction in progress	9,224,915	2,036,223	1,919,019	9,342,119
Sub-total	24,928,039	2,837,123	1,919,019	25,846,143
Capital assets being depreciated:				
Buildings and related improvements	47,229,631	1,497,011		48,726,642
Equipment, machinery and vehicles	15,844,200	2,434,084	281,516	17,996,768
Books, software, and other	2,960,447			2,960,447
Infrastructure	76,792,085	250,000	-	77,042,085
Sub-total	142,826,363	4,181,095	281,516	146,725,942
Less accumulated depreciation:				
Buildings and related improvements	13,498,463	1,830,039		15,328,502
Equipment, machinery, and vehicles	10,940,149	1,050,290	254,314	11,736,125
Books, software, and other	1,796,681	265,574		2,062,255
Infrastructure	19,962,480	1,752,565	-	21,715,045
Sub-total	46,197,773	4,898,468	254,314	50,841,927
Governmental capital assets, net	<u>\$121,556,629</u>	<u>\$2,119,750</u>	<u>\$1,946,221</u>	<u>\$121,730,158</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 2,070,100	\$	\$	\$ 2,070,100
Construction in progress	538,478	274,616	-	813,094
Sub-total	2,608,578	274,616	-	2,883,194
Capital assets being depreciated:				
Buildings and related improvements	2,964,058			2,964,058
Equipment, machinery & vehicles	896,826	139,656		1,036,482
Infrastructure	26,947,299	262,064	17,348	27,192,015
Sub-total	30,808,183	401,720	17,348	31,192,555
Less accumulated depreciation:				
Buildings and related improvements	718,341	69,080		787,421
Equipment, machinery & vehicles	464,118	80,310		544,428
Infrastructure	8,042,280	529,904	17,348	8,554,836
Sub-total	9,224,739	679,294	17,348	9,886,686
Business-type activities capital assets, net	<u>\$24,192,022</u>	<u>\$ (2,958)</u>	<u>\$ -</u>	<u>\$24,189,064</u>

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

Governmental activities:

General government	\$ 193,091
Public safety	512,715
Education	1,728,019
Public works	2,354,986
Culture and recreation	109,657

Total depreciation expense – governmental activities \$4,898,468

Business-type activities:

Solid waste	\$ 67,813
Water	611,481

Total depreciation expense – business-type activities \$ 679,294

Note 7. Interfund balances and activity

There are no amounts due to or from governmental funds.

Interfund transfers, for the fiscal year ended June 30, 2005, consisted of the following:

	<u>General Fund</u>	<u>Stabilization Fund</u>	<u>Sewer Fund</u>	<u>Other Governmental Funds</u>	<u>Enterprise Funds</u>
Appropriated transfers from/to various funds to fund FY 2005 operating fund	\$3,364,434	\$(3,165,434)	\$ -	\$(199,000)	\$ -
Totals on governmental fund basis	3,364,434	\$(3,165,434)		\$(199,000)	-
Amounts transferred from other funds to fund indirect costs appropriated in general fund	1,140,600		\$(365,701)		\$(774,899)
Totals on budgetary basis	<u>\$4,505,034</u>		<u>\$(365,701)</u>		<u>\$(774,899)</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Note 8. Long-term obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2005:

<u>Purpose</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Governmental activities:					
Sewer, 1.93-4.61%, due 1996-2023	\$11,882,453	\$ 981,637	\$(737,241)	\$12,126,849	\$ 846,273
Schools, 1.93-5.15%, due 1996-2021	24,165,000	668,000	(1,760,000)	23,073,000	1,808,000
Multipurpose and other, 4.61-5.15%, due 1996-2021	<u>6,875,000</u>	<u>2,248,000</u>	<u>(1,110,000)</u>	<u>8,013,000</u>	<u>1,358,000</u>
Total governmental bonds payable	42,922,453	3,897,637	(3,607,241)	43,212,849	4,012,273
Compensated absences	<u>4,971,102</u>	<u>694,022</u>	<u>-</u>	<u>5,665,124</u>	<u>-</u>
Total governmental noncurrent liabilities	<u>\$47,893,555</u>	<u>\$4,591,659</u>	<u>\$(3,607,241)</u>	<u>\$48,877,973</u>	<u>\$4,012,273</u>

<u>Purpose</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
Business-type activities:					
Enterprise Funds:					
Water, 3.32-4.61%, due 1996-2015	\$1,090,000	\$ 340,000	\$(645,000)	\$ 785,000	\$200,000
Solid waste, 1.93-5.15, due 1996-2009	<u>255,000</u>	<u>-</u>	<u>(60,000)</u>	<u>195,000</u>	<u>55,000</u>
Total business-type activity bonds payable	1,345,000	340,000	(705,000)	980,000	255,000
Landfill closure liability	500,000		(44,000)	456,000	30,400
Compensated absences	<u>83,413</u>	<u>-</u>	<u>(32,428)</u>	<u>50,985</u>	<u>-</u>
Total business-type non-current liabilities	<u>\$1,928,413</u>	<u>\$ 340,000</u>	<u>\$(781,428)</u>	<u>\$1,486,985</u>	<u>\$285,400</u>

Long-term debt

The Town has applied for and received approval for school building assistance grants from the Commonwealth of Massachusetts for reimbursement of eligible construction and interest costs on the \$25,455,000 (original issue) school bonds. Reimbursement commenced in fiscal 2002 and will be made over 20 years at approximately 67% of eligible costs of the project, subject to approval and annual appropriation by the Commonwealth of Massachusetts. Pursuant to Government Accounting Standards Board (GASB) Statement No. 33, the portion of this reimbursement applicable to reimbursable project costs incurred has been included in the financial statements as a receivable from the Commonwealth of Massachusetts. The eligible construction and interest costs are subject to final audit from the Commonwealth of Massachusetts. No provision for uncollectible amounts has been provided for this receivable.

The outstanding Massachusetts Water Pollution Abatement Trust (MWPAT) bonds above are recorded at the gross amount outstanding, as the Town is obligated to repay the full amount outstanding including interest; however, it is anticipated that the debt service payments relating to these issues will be subsidized by the Commonwealth of Massachusetts via contract payments to MWPAT (and MWPAT available earnings). These payments are recorded as revenue and expenses in the accompanying entity-wide financial statements, however, these payments are not included in the budgetary basis statement because it is not part of the local budget. The Town has voted to allocate the repayment of the sewer bonds to the general fund and sewer fund 40% and 60%, respectively. Accordingly, liabilities and related activity have been reported within the governmental activities in these financial statements.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

During fiscal year 2005, the MWPAT refunded outstanding bonds, increasing the outstanding obligation by \$16,637. This amount has been included as an addition in the above schedule with the \$3,881,000 of long term debt issued for the Town's governmental activities. This amount has been included with interest and other costs in the statement of activities.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2005, including interest, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,012,273	\$ 1,757,852	\$ 5,770,125	\$255,000	\$34,467	\$ 289,467
2007	3,848,679	1,640,572	5,489,251	155,000	26,382	181,382
2008	3,819,241	1,501,545	5,320,786	150,000	20,070	170,070
2009	3,751,290	1,371,469	5,122,759	125,000	15,060	140,060
2010	3,241,652	1,238,182	4,479,834	85,000	10,703	95,703
2011 - 2015	12,395,828	4,415,431	16,811,259	210,000	18,803	228,803
2016 - 2020	9,383,497	1,940,847	11,324,344			
2021 - 2023	2,760,389	165,353	2,925,742			
Total	<u>\$43,212,849</u>	<u>\$14,031,251</u>	<u>\$57,244,100</u>	<u>\$980,000</u>	<u>\$125,485</u>	<u>\$1,105,485</u>

The Town is subject to a dual level general debt limit-the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth. Additionally, there are many categories of general obligation debt that are exempt from the debt limit but are subject to other limitations.

Unissued debt authorizations consist of the following at June 30, 2005:

<u>Purpose</u>	<u>Year(s)</u> <u>Authorized</u>	<u>Unissued</u> <u>Balance</u> <u>June 30, 2004</u>	<u>Issued</u>	<u>Authorization</u>	<u>Unissued</u> <u>Balance</u> <u>June 30, 2005</u>
<u>General Purpose</u>					
School projects	2004/2005	\$ 693,000	\$ (693,000)	\$ 270,000	\$ 270,000
Various DPW and other projects	2004/2005	1,473,500	(1,473,000)	1,020,000	1,020,500
Seawalls and dredging	2004	750,000	(750,000)		
Sewer extension	2003	689,420	(500,000)		189,420
Sewer buildings repair and equipment	2003/2005	468,000	(465,000)	788,000	791,000
		<u>4,073,920</u>	<u>(3,881,000)</u>	<u>2,078,000</u>	<u>2,270,920</u>
<u>Enterprise</u>					
Water main	2004	340,000	(340,000)	1,500,000	1,500,000
Total authorized and unissued		<u>\$4,413,920</u>	<u>\$ (4,221,000)</u>	<u>\$3,578,000</u>	<u>\$3,770,920</u>

The Town pays assessments, which include debt service payments to other local governmental units providing services on behalf of the Town (commonly referred to as overlapping debt.) The Town is indirectly liable, through its assessments to these governments, for this debt. However, the debt is not considered against the Town's debt limits or reported on the Town's Statement of Net Assets.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Lease obligations

A. Operating leases

The Town has entered into a number of operating leases to support governmental activities, some of which are non-cancelable but otherwise are subject to annual appropriation. The annual minimum required lease payments for non-cancelable operating leases are immaterial as of June 30, 2005.

B. Capital leases

In accordance with Massachusetts General Laws, the Town may enter into lease agreements for a period not to exceed five years and subject to annual appropriation. Currently, the Town has no material capital lease obligations outstanding.

Note 9. Temporary borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary (short-term) basis to fund the following:

Current operating costs prior to the collection of revenues through issuance of tax anticipation notes (TANs),

Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs),

Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for temporary borrowings are accounted for in the General Fund. Temporary borrowings are recorded as liabilities in the Capital Project Funds. The Town had no temporary borrowings in either the governmental or business-type activities outstanding at June 30, 2004. The Town had no temporary borrowings in either the governmental or business-type activities during fiscal year 2005. Accordingly, there is no short-term debt outstanding as of June 30, 2005.

Note 10. Employee Benefits

A. Retirement Benefits

Plan Description

The Town of Marshfield, Massachusetts contributes for eligible employees to the Plymouth County Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Plymouth County Retirement Association. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is governed by the applicable provisions of Chapter 32 of the Massachusetts General Law (M.G.L.) and other applicable statutes. Oversight is provided by a five member board. The System issues an annual report, including financial statements and required supplementary information, which is available to the public and may be obtained by contacting the Plymouth County Retirement Association, 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360. Teachers are covered by the Commonwealth of Massachusetts, Teachers Retirement System (TRS), to which the Town does not contribute.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Funding Policy

Plan members are required to contribute 5-11% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The Town's current year contribution, which was equal to its required contribution, is \$1,975,532, representing approximately 7.89% of the system wide employer assessments. The contribution requirements of plan members and the Town are established and may be amended by M.G.L. The Town's contributions to the System for the years ending June 30, 2004 and 2003 were \$1,908,741 and \$1,652,757 respectively, which were equal to the required contributions for each year.

As noted above, the Town does not contribute to TRS. Contributions to the TRS are made by the Commonwealth of Massachusetts on behalf of the Town. Accounting principles generally accepted in the United States require the Town to record such "on behalf payments" as revenue and expenditures/expenses in the financial statements. Accordingly, \$5,050,354 of pension benefits paid by the Commonwealth of Massachusetts on behalf of the Town is included in the accompanying Statement of Activities as general government operating contributions and expense and in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance as general fund intergovernmental revenue and general government expenditures. These on-behalf payments are not part of the local budget and therefore, are not included in the accompanying budgetary basis statement.

B. Compensated Absences

Employees earn vacation and sick leave as they provide services. The cost of vacation and sick leave benefits is recorded as an expenditure of the applicable fund when incurred. Vacation and sick pay accumulates for various groups of employees based upon personnel by-laws and their respective collective bargaining agreements. Accumulated unused sick leave is due to certain employees upon termination of employment and has been recorded as a liability in the accompanying Statement of Net Assets for both governmental and business-type activities.

C. Other Post Employment Benefits

In addition to the pension benefits described above, the Town provides postretirement healthcare benefits to all employees who retire from the Town on or after attaining age 55 with 10 or more years of service. Currently, the Town pays at least 50% of the health, dental and life insurance premiums for approximately 386 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2005, those costs totaled approximately \$1,023,000.

Note 11. 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.

As of June 30, 2005, \$456,000 is included as a liability in the Enterprise Fund for the remaining cost of post-closure monitoring costs of the landfill. Actual costs may change due to the finalizing of regulations with regulatory authorities, changing technology, and inflation.

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Town carries commercial insurance for all risks. The Town belongs to the Plymouth County Health Claims Trust Fund for health insurance. The Town pays annual premiums to the fund, which is self-insured but has stop-loss insurance for individual claims in excess of \$200,000.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2005

Note 13. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2005, including those claims asserted which are incidental to performing ordinary governmental functions. Such litigation includes actions commenced and claims asserted against the Town for property damage and personal injury and other alleged violations of law. The potential estimated liability of the Town for the above litigation cannot be determined. In the opinion of Town management, the ultimate resolution of these legal actions will not result in a material loss to the Town. Accordingly, no provision for loss has been made in the accompanying financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, 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.