

**TOWN OF MARSHFIELD, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

**TOWN OF MARSHFIELD, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
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TABLE OF CONTENTS

Independent Auditor's Report	i
Management's Discussion and Analysis	ii
Basic Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	1
Statement of Activities	2
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	4
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to Statement of Activities	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis – General Fund – Budget and Actual	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis – Sewer Fund – Budget and Actual	7
Statement of Net Assets – Proprietary Funds	8
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Statement of Net Assets – Fiduciary Funds	11
Statement of Changes in Net Assets – Fiduciary Funds	12
Notes to Financial Statements	13

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, 2006, 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, 2006, 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 March 22, 2007, except for capital assets, which are dated April 20, 2007, 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.

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

March 22, 2007, except for capital assets which are dated April 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

As management of the Town of Marshfield (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 year ended June 30, 2006.

Financial Highlights

- The assets of the Town's governmental activities exceeded its liabilities at the close of the most recent fiscal year by \$123.9 million (net assets). Of this amount, approximately \$16.9 and \$22.9 million represented restricted and unrestricted net assets, respectively.
- The assets of the Town's business-type activities exceeded its liabilities at the close of the most recent fiscal year by \$30.8 million (net assets). Of this amount, approximately \$8.2 million represented unrestricted net assets.
- The total cost of all services provided by the Town for fiscal 2006 was \$85.1 million. The total cost of governmental activities and business-type activities was \$78.6 million and \$6.5 million, respectively.
- As of the end of the current fiscal year, unreserved fund balance for the general fund was \$5,639,433, or approximately 8.2% 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 Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

Fund Financial Statements:

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

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

Governmental Funds:

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be major fund. The remaining funds are combined into aggregate funds in this presentation. Individual fund data for each of these non-major governmental funds is available from the Town Accountant's office.

The basic governmental fund financial statements can be found in 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.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and solid waste activities.

The basic proprietary financial statements can be found in the accompanying pages of this report.

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's programs.

The basic fiduciary fund financial statements can be found in the accompanying pages of this report.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

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 follow the basic financial statements described above.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Marshfield, assets exceeded liabilities by \$123.9 and \$30.8 million for the governmental and business-type activities, respectively, at the close of the most recent fiscal year as demonstrated in the following tables. Amounts for fiscal 2005 have been restated for prior period capital asset revisions.

	FY 2006	(restated) FY 2005	
	<u>Governmental</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>	<u>Percent</u> <u>Change</u>
Current assets	\$ 50,014,894	\$ 51,542,179	(2.96)%
Capital assets	<u>125,002,085</u>	<u>125,233,308</u>	(0.02)%
Total assets	175,016,979	176,775,487	(0.99)%
Current liabilities	10,223,390	5,900,897	73.25%
Long-term liabilities	<u>40,887,330</u>	<u>48,877,973</u>	(16.35)%
Total liabilities	51,110,720	54,778,870	(6.70)%
Net assets:			
Capital Assets, net of related debt	83,996,510	82,020,459	2.41%
Restricted	16,942,823	13,816,642	22.63%
Unrestricted	<u>22,966,926</u>	<u>26,159,516</u>	(12.20)%
Total net assets	<u>\$ 123,906,259</u>	<u>\$ 121,996,617</u>	1.57%

Included within the governmental activity current assets, unrelated to capital assets, are \$18,166,707 in cash, \$7,239,785 in investments, and \$24,608,402 in receivables, net of allowances for uncollectibles. These receivables consist primarily of approximately \$4.6 million of sewer betterment, \$3.8 million of property taxes, excise and charges for services, and \$16.2 million of intergovernmental receivables. Intergovernmental receivables include state highway construction grants, MWPAT draw downs and interest subsidies, Community Preservation matching funds and school building assistance reimbursement.

Governmental activity long term liabilities include \$39.2 million in general obligation bonds, of which approximately \$3.8 million has been classified as current because it is due within fiscal year 2007. Long-term liabilities also include \$5.5 million for compensated absences.

TOWN OF MARSHFIELD, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2006

	FY 2006	FY 2005	Percent
	<u>Business-type</u>	<u>Business-type</u>	<u>Change</u>
	<u>Activities</u>	<u>Activities</u>	
Current assets	\$ 9,214,185	\$ 8,425,846	9.36%
Capital assets	<u>24,803,281</u>	<u>24,189,064</u>	2.51%
Total assets	34,017,466	32,614,910	4.30%
Current liabilities	1,904,804	666,956	158.60%
Long-term liabilities	<u>1,326,436</u>	<u>1,201,585</u>	10.39%
Total liabilities	3,231,240	1,868,541	72.93%
Net assets:			
Invested in capital assets, net of related debt	22,578,281	23,209,064	(2.72)%
Unrestricted	<u>8,207,945</u>	<u>7,537,305</u>	8.90%
Total net assets	<u>\$ 30,786,226</u>	<u>\$ 30,746,369</u>	0.13%

The largest portion of the Town's total net assets \$106.6 million (68.9%), reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets, \$16.9 million (10.9%) represents resources that are subject to restrictions placed on how they may be used. The remaining balance of unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors, is \$31.2 million or 20.2% of total net assets.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets.

Governmental activities and business-type activities increased the Town's net assets by \$1,909,642 and \$39,857, respectively, during fiscal 2006. A summary of revenues and major functional expenditures is presented below.

Key elements of this increase are as follows:

Revenues:

- ◆ Property taxes represent nearly 47.4% of the Town's governmental activities revenue. Property tax growth represents a combination of an annual increase, allowed in the levy under Proposition 2 ½, and new growth.
- ◆ Operating grants and contributions make up the second largest revenue representing nearly 25.9% of the Town's total revenue. The largest proportion of this revenue, nearly \$13.5 million represents Chapter 70 school aid and other educational grants received from the Commonwealth and federal government.
- ◆ Charges for services represents nearly 20.2% of the Town's total revenue. The Town's governmental activities include public works charges for services (sewer charges and betterments) of approximately \$7.8 million. During fiscal 2006 the Town implemented sewer

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

billing based upon usage, rather than a "flat fee". In addition, approximately \$4.5 million of sewer betterments were assessed for completed sewer mains. This accounts for the significant increase (96.3%) in charges for services over the prior year. The Town's business-type activities reported charges for services of \$3.8 million and \$2.5 million, for the solid waste and water fund respectively.

Expenses:

- ◆ Increases in general government expenses resulted from increases in health and other insurance costs.
- ◆ Employee benefit costs rose approximately 12% due to rising health insurance costs.
- ◆ Property and liability insurance costs rose by approximately 11%.
- ◆ Certain functional expenses changed as a result of current year classification and a decrease in capitalized costs (human services and culture and recreation) over the previous year.

	FY 2006 Governmental Activities	FY 2005 Governmental Activities	Percent Change
Revenues:			
Charges for services	\$ 11,322,161	\$ 5,768,519	96.28%
Operating grants and contributions	20,898,283	20,256,840	3.17%
Capital grants and contributions	368,465	454,821	(18.99)%
General revenues:			
Property taxes	38,193,873	36,480,384	4.70%
Excise taxes	3,496,136	3,458,124	1.10%
Penalties and interest	255,015	255,291	0.11%
Grants and contributions not restricted	4,654,593	5,253,422	(11.40)%
Investment income	1,028,278	694,329	48.10%
Departmental and other	<u>331,701</u>	<u>712,029</u>	(53.41)%
Total revenues	80,548,505	73,333,759	9.84%
Expenses:			
General government	15,405,542	14,326,978	7.53%
Public safety	8,667,686	8,299,401	4.44%
Education	42,239,114	43,164,028	(2.14)%
Public works	7,556,157	8,702,961	(13.18)%
Health and human services	859,902	636,384	35.12%
Culture and recreation	1,512,792	1,048,802	44.24%
Interest and other charges	1,675,950	1,888,162	(11.24)%
State and county charges	<u>721,720</u>	<u>826,165</u>	(12.64)%
Total expenses	<u>78,638,863</u>	<u>78,892,881</u>	(0.32)%
Special items:			
Loss on disposal of capital asset		<u>(27,202)</u>	100.00%
Change in net assets	<u>\$ 1,909,642</u>	<u>\$ (5,586,324)</u>	

TOWN OF MARSHFIELD, MASSACHUSETTS
Management's Discussion and Analysis
June 30, 2006

	FY 2006 Business-type Activities	FY 2005 Business-type Activities	Percent Change
Operating revenues:			
Charges for services	\$ 6,278,397	\$ 6,190,358	1.42%
Departmental and other	<u>48,453</u>	<u>34,761</u>	39.39%
Total operating revenues	6,326,850	6,225,119	1.63%
Operating expenses:			
Salaries, wages and benefits	1,407,148	1,171,174	20.15%
Operating expenses	4,362,153	3,884,350	12.30%
Depreciation	<u>708,683</u>	<u>679,294</u>	4.33%
Total operating expenses	<u>6,477,984</u>	<u>5,734,818</u>	12.96%
Operating income (loss)	(151,134)	490,301	(130.82)%
Non operating revenues (expenses)			
Intergovernmental		47,500	(100)%
Investment income	324,666	94,255	244.45%
Interest expense	(32,462)	(35,979)	(9.78)%
Loss on disposal of capital asses	<u>(101,213)</u>	<u>-</u>	(100)%
Total non operating revenue (expense), net	<u>190,991</u>	<u>105,776</u>	80.56%
Change in net assets	<u>\$ 39,857</u>	<u>\$ 596,077</u>	(93.31)%

Financial Analysis of the Government's Funds

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

Governmental Funds:

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$19.6 million. Approximately 88.3% of this total amount (approximately \$17.3 million) constitutes unreserved fund balance, which is available for spending at the government's discretion or as provided for in the terms and conditions of several applicable grant or custodial agreements or for capital projects. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$2.3 million).

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was \$5,639,433, while total fund balance was \$6,602,426. 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. General fund unreserved fund balance represents 8.2% of total general fund expenditures, while total fund balance represents 9.6% of that same amount.

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

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. The Town's general fund unreserved fund balance of \$5,639,433 million is 8.6% of general fund revenue.

During the current fiscal year, the Town's total General Fund balance decreased \$53,581. General Fund expenditures exceeded revenues by about \$2.9 million. The Town also utilized approximately \$3.3 million of other funds, including approximately \$3.2 million from the Town's stabilization fund.

General Fund Budgetary Highlights

The Town adopts an annual expenditure budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The difference between the original budget of \$66,323,980 and the amended final budget of \$65,366,987 is primarily due to encumbrances from the prior fiscal year included in the original budget and the encumbrances at the end of the year are not included in the final budget.

Sewer Fund Budgetary Highlights

The Town adopts an annual expenditure budget for its Sewer Fund. A budgetary comparison statement has been provided for the Sewer Fund to demonstrate compliance with the budget.

The difference between the original budget of \$2,621,107 and the final budget of \$2,450,995 is primarily due to encumbrances from the prior fiscal year included in the original budget and the encumbrances at the end of the year are not included in the final budget.

Capital Asset and Debt Administration

Capital assets:

The Town's investment in capital assets for governmental activities as of June 30, 2006 amounts to \$125.0 million which is net of accumulated depreciation of \$8.5 million. The investment in capital assets includes land; buildings; improvements; machinery and equipment. It also includes infrastructure (inclusive of sewer mains, etc.) placed in service since July 1, 2003.

The tables below represent a summary of the Town's capital assets for governmental and business-type activities, net of accumulated depreciation by category (in millions):

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

Capital assets	<u>Governmental Activities</u>	
	<u>2006</u>	<u>(restated) 2005</u>
Land and improvements	\$ 17.6	\$ 16.5
Construction in progress	1.3	9.3
Buildings and related improvements	34.8	31.5
Equipment, machinery, vehicles	6.9	6.3
Books, software and other	.9	.9
Infrastructure	<u>63.5</u>	<u>60.7</u>
	<u>\$ 125.0</u>	<u>\$ 125.2</u>

The Town's major capital asset activities relating to governmental activities during 2006 included the following:

- ♦ completion of various projects previously reported in construction in progress, including senior center, running track, school building upgrades and sewer mains,
- ♦ purchase of land through the community preservation fund,
- ♦ purchase of police cruisers and paramedic unit, and
- ♦ improvements to Town roads, sidewalks and seawalls.

Capital assets	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 2.5	\$ 2.0
Construction in progress	.9	.8
Buildings and related improvements	2.0	2.1
Equipment, machinery, vehicles	.5	.6
Infrastructure	<u>18.9</u>	<u>18.7</u>
	<u>\$ 24.8</u>	<u>\$ 24.2</u>

The Town's major capital asset activities relating to business-type activities during 2006 included the following:

- ♦ purchase of land,
- ♦ disposal of a loader at transfer station,
- ♦ completion of various projects (including water mains) previously reported in construction in progress,
- ♦ various additions to infrastructure including hydrants, meters and
- ♦ new work on pumping stations, and mains during fiscal year included in construction in progress.

Long-term Debt:

At the end of the current fiscal year, the Town had total bonded debt outstanding of \$39.2 million and \$725,000 for the governmental and business-type activities, respectively. This is compared to \$43.2 million and \$980,000, respectively last year. Debt of the governmental activities is a general obligation of the Town. Debt of the business-type activities is supported by water rates and trash fees.

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

TOWN OF MARSHFIELD, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

Economic Factors and Next Year's Budgets and Rates

- ♦ The Town has increased its property tax levy by approximately 4.0%, which includes new growth.
- ♦ The Town's fiscal year 2007 operating budget increased 3.5% over the fiscal year 2006 budget. Annual Town Meeting authorized utilizing \$1.2 million from the Town's Stabilization fund for the fiscal 2007 operating budget.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town of Marshfield, Attn: Town Administrator, Town Hall, 870 Moraine Street, Marshfield, MA 02050.

BASIC FINANCIAL STATEMENTS

TOWN OF MARSHFIELD, MASSACHUSETTS

Statement of Net Assets

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 18,166,707	\$ 8,141,662	\$ 26,308,369
Investments	7,239,785		7,239,785
Receivables, net of allowance for uncollectibles	24,608,402	1,072,523	25,680,925
Capital assets, net of accumulated depreciation	<u>125,002,085</u>	<u>24,803,281</u>	<u>149,805,366</u>
Total assets	<u>\$ 175,016,979</u>	<u>\$ 34,017,466</u>	<u>\$ 209,034,445</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 3,647,971	\$ 217,170	\$ 3,865,141
Accrued interest payable	235,981	4,434	240,415
Provision for refund of paid taxes	685,761		685,761
Bond anticipation notes	1,805,000	1,500,000	3,305,000
Noncurrent liabilities			
Due within one year	3,848,677	183,200	4,031,877
Due in more than one year	<u>40,887,330</u>	<u>1,326,436</u>	<u>42,213,766</u>
Total liabilities	51,110,720	3,231,240	54,341,960
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	83,996,510	22,578,281	106,574,791
Restricted	16,942,823		16,942,823
Unrestricted	<u>22,966,926</u>	<u>8,207,945</u>	<u>31,174,871</u>
Total net assets	<u>123,906,259</u>	<u>30,786,226</u>	<u>154,692,485</u>
Total liabilities and net assets	<u>\$ 175,016,979</u>	<u>\$ 34,017,466</u>	<u>\$ 209,034,445</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, 2006

Functions/Programs Primary government	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government		
			Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 15,405,542	\$ 298,906	\$ 6,551,995	\$ -	\$ (8,554,641)	\$ -	\$ (8,554,641)
Public safety	8,667,686	1,388,709	384,921		(6,894,056)		(6,894,056)
Education	42,239,114	1,162,379	13,466,503		(27,610,232)		(27,610,232)
Public works	7,556,157	7,828,621	152,723	368,465	793,652		793,652
Health and human services	859,902	70,227			(789,675)		(789,675)
Culture and recreation	1,512,792	573,319	63,823		(875,650)		(875,650)
Interest	1,675,950		278,318		(1,397,632)		(1,397,632)
State and county charges	721,720	-	-	-	(721,720)	-	(721,720)
Total governmental activities	78,638,863	11,322,161	20,898,283	368,465	(46,049,954)	-	(46,049,954)
Business-type activities							
Solid Waste	3,582,024	3,817,833	63,972			299,781	299,781
Water	2,928,422	2,509,017	260,694	-	-	(158,711)	(158,711)
Total business-type activities	6,510,446	6,326,850	324,666	-	-	141,070	141,070
Total primary government	\$ 85,149,309	\$ 17,649,011	\$ 21,222,949	\$ 368,465	(46,049,954)	141,070	(45,908,884)
General revenues							
Property taxes and payments in lieu, net of allowance for uncollectibles					38,193,873		38,193,873
Excise taxes					3,496,136		3,496,136
Penalties and interest on taxes					255,015		255,015
Grants and contributions not restricted to specific programs					4,654,593		4,654,593
Investment income					1,028,278		1,028,278
Departmental					331,701		331,701
Loss on disposal of capital assets					-	(101,213)	(101,213)
Total general revenues and special items					47,959,596	(101,213)	47,858,383
Change in net assets					1,909,642	39,857	1,949,499
Net assets - beginning of year, (Note 14)					121,996,617	30,746,369	152,742,986
Net assets - end of year					\$ 123,906,259	\$ 30,786,226	\$ 154,692,485

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

TOWN OF MARSHFIELD, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2006

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Stabilization Fund</u>	<u>Community Preservation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 4,009,572	\$ 4,037,498	\$ 1,088,585	\$ 4,508,538	\$ 4,522,514	\$ 18,166,707
Investments	6,063,968		192,275		983,542	7,239,785
Receivables	14,939,120	7,176,253	-	846,205	932,815	23,894,393
Total assets	<u>\$ 25,012,660</u>	<u>\$ 11,213,751</u>	<u>\$ 1,280,860</u>	<u>\$ 5,354,743</u>	<u>\$ 6,438,871</u>	<u>\$ 49,300,885</u>
<u>LIABILITIES</u>						
Accounts payable and other current liabilities	\$ 3,083,802	\$ 55,479	\$ -	\$ 36,365	\$ 472,325	\$ 3,647,971
Provision for refund of paid taxes	685,761					685,761
Bond anticipation notes		160,000			1,645,000	1,805,000
Deferred revenue	14,640,671	7,176,253	-	846,205	932,815	23,595,944
Total liabilities	18,410,234	7,391,732	-	882,570	3,050,140	29,734,676
<u>FUND BALANCES</u>						
Reserved for						
Encumbrances and continued appropriations	962,993	1,333,578				2,296,571
Unreserved:						
General Fund	5,639,433					5,639,433
Special revenue funds		2,488,441	1,280,860	4,472,173	1,955,247	10,196,721
Capital projects funds					352,910	352,910
Permanent fund	-	-	-	-	1,080,574	1,080,574
Total fund balances	<u>6,602,426</u>	<u>3,822,019</u>	<u>1,280,860</u>	<u>4,472,173</u>	<u>3,388,731</u>	<u>19,566,209</u>
Total liabilities and fund balances	<u>\$ 25,012,660</u>	<u>\$ 11,213,751</u>	<u>\$ 1,280,860</u>	<u>\$ 5,354,743</u>	<u>\$ 6,438,871</u>	<u>\$ 49,300,885</u>
Amounts reported for governmental activities in the statement of net assets are different because:						
Total fund balances of governmental funds						\$ 19,566,209
Capital assets used in governmental activities are not financial resources and not reported in funds. The cost of the assets is \$181,341,393, and accumulated depreciation is \$56,339,308						125,002,085
Receivables and other long-term assets are not available to pay for current-period expenditures and are deferred in funds, net of uncollectibles and unbilled charges are accrued						24,309,953
Debt and other long-term liabilities are not due and payable in the current period and are not included in funds.						(44,736,007)
Reporting of liabilities on full accrual basis requires associated interest, net of subsidies, be accrued.						(235,981)
Net assets of governmental activities						<u>\$ 123,906,259</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, 2006

	<u>General</u>	<u>Sewer Fund</u>	<u>Stabilization Fund</u>	<u>Community Preservation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 37,550,431	\$ -	\$ -	\$ 828,312	\$ -	\$ 38,378,743
Excise taxes	3,420,531				57,850	3,478,381
Licenses, permits and fees	910,769				-	910,769
Penalties and interest	252,972			2,043		255,015
Investment income	568,917	163,143	100,251	164,372	31,595	1,028,278
Charge for services	773,252	3,172,593			1,860,991	5,806,836
Departmental and other	119,605	3,942			580,839	704,386
Intergovernmental	22,348,960	362,643	-	777,289	3,735,242	27,224,134
Total revenues	65,945,437	3,702,321	100,251	1,772,016	6,266,517	77,786,542
Expenditures						
Current:						
General government	15,033,094			833,408	834,168	16,700,670
Public safety	7,702,275				485,370	8,187,645
Education	36,921,836				4,685,299	41,607,135
Public works	2,746,720	2,304,026			2,475,151	7,525,897
Human services	662,074			103,951	84,745	850,770
Culture and recreation	733,669				533,877	1,267,546
State and county assessments	721,720					721,720
Debt service	4,405,495	1,372,071	-	-	-	5,777,566
Total expenditures	68,926,883	3,676,097	-	937,359	9,098,610	82,638,949
Revenues over (under) expenditures	(2,981,446)	26,224	100,251	834,657	(2,832,093)	(4,852,407)
Other financing sources (uses)						
Transfers in from other funds	3,339,434	411,569			8,043	3,759,046
Transfers out to other funds	(411,569)	-	(3,180,000)	-	(167,477)	(3,759,046)
Total other financing sources (uses)	2,927,865	411,569	(3,180,000)	-	(159,434)	-
Revenues and other financing sources over (under) expenditures and other financing uses	(53,581)	437,793	(3,079,749)	834,657	(2,991,527)	(4,852,407)
Fund balance, beginning of year	6,656,007	3,384,226	4,360,609	3,637,516	6,380,258	24,418,616
Fund balance, end of year	\$ 6,602,426	\$ 3,822,019	\$ 1,280,860	\$ 4,472,173	\$ 3,388,731	\$ 19,566,209

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, 2006

Revenues and other financing sources (under)	
expenditures and other financing uses	\$ (4,852,407)

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	5,027,246
Depreciation recorded for the fiscal year	(5,258,467)

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	2,601,180
Net change in unbilled, accrued revenue	117,000
Net change in allowance for uncollectible accounts	43,781

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	4,012,274
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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	89,343
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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	<u>129,692</u>
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Change in net assets of governmental activities	<u>\$ 1,909,642</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, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Property taxes	\$ 36,967,093	\$ 36,967,093	\$ 37,470,327	\$ 503,234
Excise taxes	2,609,400	2,609,400	3,420,531	811,131
Licenses, permits, and fees	771,000	771,000	910,769	139,769
Penalties and interest	205,000	205,000	252,972	47,972
Investment interest	394,000	394,000	568,917	174,917
Departmental and other	698,000	698,000	892,857	194,857
Intergovernmental	<u>16,456,782</u>	<u>16,456,782</u>	<u>16,477,124</u>	<u>20,342</u>
Total revenues	58,101,275	58,101,275	59,993,497	1,892,222
Expenditures				
General government	11,097,540	10,559,057	9,967,631	591,426
Public safety	7,616,738	7,773,939	7,702,275	71,664
Education	37,415,632	36,976,760	36,921,836	54,924
Public works	3,062,516	2,968,333	3,146,147	(177,814)
Human services	669,133	681,120	662,074	19,046
Culture and recreation	777,109	742,466	733,669	8,797
State and county assessments	787,447	787,447	721,720	65,727
Debt service	<u>4,897,865</u>	<u>4,877,865</u>	<u>4,817,064</u>	<u>60,801</u>
Total expenditures	66,323,980	65,366,987	64,672,416	694,571
Revenues over (under) expenditures	(8,222,705)	(7,265,712)	(4,678,919)	2,586,793
Other financing sources (uses)				
Transfers in from other funds	<u>4,514,154</u>	<u>4,520,154</u>	<u>4,545,234</u>	<u>25,080</u>
Total other financing sources	4,514,154	4,520,154	4,545,234	25,080
Revenues and other financing sources over (under) expenditures and other financing uses	(3,708,551)	(2,745,558)	(133,685)	<u>\$ 2,611,873</u>
Fund balance, beginning of year			<u>7,155,798</u>	
Fund balance, end of year			<u>\$ 7,022,113</u>	
Other budget items				
Free cash appropriations	\$ 2,581,874	\$ 2,581,874		
Overlay surplus appropriations	50,000	50,000		
Carryover encumbrances and articles	1,735,706	772,713		
Funding of prior year deficits	<u>(659,029)</u>	<u>(659,029)</u>		
Total other budget items	3,708,551	2,745,558		
Net budget	<u>\$ -</u>	<u>\$ -</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 - Budgetary Basis
Sewer Fund - Budget and Actual
For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
User charges and departmental	\$ 2,592,325	\$ 2,592,325	\$ 3,176,535	\$ 584,210
Investment interest	51,859	51,859	163,143	111,284
Intergovernmental	25,438	25,438	13,903	(11,535)
Total revenues	2,669,622	2,669,622	3,353,581	683,959
Expenditures				
Salaries and wages	722,495	722,495	691,449	31,046
Expenses	1,271,613	1,101,501	1,016,212	85,289
Debt service	626,999	626,999	611,762	15,237
Total expenditures	2,621,107	2,450,995	2,319,423	131,572
Revenues over expenditures	48,515	218,627	1,034,158	815,531
Other financing sources (uses)				
Transfers out to other funds	(393,628)	(393,628)	(393,628)	-
Total other financing sources (uses)	(393,628)	(393,628)	(393,628)	-
Revenues and other financing sources over (under) expenditures and other financing uses	(345,113)	(175,001)	640,530	\$ 815,531
Fund balance, beginning of year (restated)			2,949,125	
Fund balance, end of year			<u>\$ 3,589,655</u>	
Other budget items				
Retained earnings appropriations	\$ 250,000	\$ 250,000		
Carryover encumbrances and articles	95,113	(74,999)		
Total other budget items	345,113	175,001		
Net budget	<u>\$ -</u>	<u>\$ -</u>		

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

TOWN OF MARSHFIELD, MASSACHUSETTS

Statement of Net Assets - Proprietary Funds

June 30, 2006

	Business-type activities		
	<u>Solid Waste</u>	<u>Water</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,679,640	\$ 6,462,022	\$ 8,141,662
Receivables, net of allowance for uncollectibles	463,870	608,653	1,072,523
Capital assets, net of accumulated depreciation	<u>1,563,243</u>	<u>23,240,038</u>	<u>24,803,281</u>
Total assets	<u>\$ 3,706,753</u>	<u>\$ 30,310,713</u>	<u>\$ 34,017,466</u>
<u>LIABILITIES</u>			
Accounts payable and other current liabilities	\$ 118,207	\$ 98,963	\$ 217,170
Accrued interest payable	2,120	2,314	4,434
Bond anticipation notes		1,500,000	1,500,000
Noncurrent liabilities			
Due within one year	83,200	100,000	183,200
Due in more than one year	<u>725,886</u>	<u>600,550</u>	<u>1,326,436</u>
Total liabilities	929,413	2,301,827	3,231,240
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,423,243	21,155,038	22,578,281
Unrestricted	<u>1,354,097</u>	<u>6,853,848</u>	<u>8,207,945</u>
Total net assets	<u>2,777,340</u>	<u>28,008,886</u>	<u>30,786,226</u>
Total liabilities and net assets	<u>\$ 3,706,753</u>	<u>\$ 30,310,713</u>	<u>\$ 34,017,466</u>

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

TOWN OF MARSHFIELD, MASSACHUSETTS
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
For the Year Ended June 30, 2006

	<u>Business-type activities</u>		
	<u>Solid Waste</u>	<u>Water</u>	<u>Totals</u>
Operating revenues			
Charges for service	\$ 3,816,654	\$ 2,461,743	\$ 6,278,397
Departmental and other	<u>1,179</u>	<u>47,274</u>	<u>48,453</u>
Total operating revenues	3,817,833	2,509,017	6,326,850
Operating expenses			
Salaries, wages and benefits	423,506	983,642	1,407,148
Operating expenses	3,086,500	1,275,653	4,362,153
Depreciation	<u>66,858</u>	<u>641,825</u>	<u>708,683</u>
Total operating expenses	<u>3,576,864</u>	<u>2,901,120</u>	<u>6,477,984</u>
Operating income (loss)	240,969	(392,103)	(151,134)
Non operating revenues (expenses)			
Investment income	63,972	260,694	324,666
Interest expense	(5,160)	(27,302)	(32,462)
Loss on disposal of capital assets	<u>(101,213)</u>	<u>-</u>	<u>(101,213)</u>
Total non operating revenue (expense), net	<u>(42,401)</u>	<u>233,392</u>	<u>190,991</u>
Change in net assets	198,568	(158,711)	39,857
Net assets at beginning of year	<u>2,578,772</u>	<u>28,167,597</u>	<u>30,746,369</u>
Net assets at end of year	<u>\$ 2,777,340</u>	<u>\$ 28,008,886</u>	<u>\$ 30,786,226</u>

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

TOWN OF MARSHFIELD, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2006

	<u>Business-type activities</u>		
	<u>Solid Waste</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers and users and other sources	\$ 3,681,579	\$ 3,376,556	\$ 7,058,135
Payments to vendors and employees	<u>(3,428,557)</u>	<u>(2,221,039)</u>	<u>(5,649,596)</u>
Net cash provided by operating activities	253,022	1,155,517	1,408,539
 Cash flows from capital and related financing activities			
Proceeds from bond anticipation notes		1,500,000	1,500,000
Acquisition and construction of capital assets	(42,001)	(1,382,112)	(1,424,113)
Principal payments on bonds and notes	(55,000)	(200,000)	(255,000)
Interest paid	<u>(6,263)</u>	<u>(28,205)</u>	<u>(34,468)</u>
Net cash (used for) capital and related financing activities	(103,264)	(110,317)	(213,581)
 Cash flows from investing activities			
Investment income	<u>63,972</u>	<u>260,694</u>	<u>324,666</u>
Net cash provided by investing activities	<u>63,972</u>	<u>260,694</u>	<u>324,666</u>
 Net change in cash and cash equivalents	213,730	1,305,894	1,519,624
Cash and cash equivalents at beginning of year	<u>1,465,910</u>	<u>5,156,128</u>	<u>6,622,038</u>
Cash and cash equivalents at end of year	<u>\$ 1,679,640</u>	<u>\$ 6,462,022</u>	<u>\$ 8,141,662</u>
 Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 240,969	\$ (392,103)	\$ (151,134)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	66,858	641,825	708,683
Changes in assets and liabilities:			
User fees receivable	(136,254)	867,539	731,285
Accounts payable, accrued and other expenses	<u>81,449</u>	<u>38,256</u>	<u>119,705</u>
Total adjustments	<u>12,053</u>	<u>1,547,620</u>	<u>1,559,673</u>
Net cash provided by operating activities	<u>\$ 253,022</u>	<u>\$ 1,155,517</u>	<u>\$ 1,408,539</u>
 Supplementary schedule of noncash capital and related financing and investing activities			
Loss on disposal of capital assets	<u>\$ 101,213</u>	<u>\$ -</u>	<u>\$ 101,213</u>

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

TOWN OF MARSHFIELD, MASSACHUSETTS
Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2006

	<u>Private Purpose</u>	<u>Agency</u>
	<u>Trust Funds</u>	<u>Accounts</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 184,703	\$ 904,894
Investments	14,566	
Receivables	<u>-</u>	<u>77,051</u>
 Total assets	 <u><u>\$ 199,269</u></u>	 <u><u>\$ 981,945</u></u>
<u>LIABILITIES</u>		
Accounts payable and other current liabilities	\$ -	\$ 15,739
Due to Commonwealth		16,895
Due to students		86,952
Guarantee deposits and other	<u>-</u>	<u>862,359</u>
 Total liabilities	 <u>-</u>	 <u>981,945</u>
<u>NET ASSETS</u>		
Held in trust	<u>199,269</u>	<u>-</u>
 Total liabilities and net assets	 <u><u>\$ 199,269</u></u>	 <u><u>\$ 981,945</u></u>

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

TOWN OF MARSHFIELD, MASSACHUSETTS
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
For the Year Ended June 30, 2006

	Private Purpose Trust Funds
Additions	
Interest and dividends	\$ 6,284
Total additions	6,284
Deductions	
Scholarships and awards	2,650
Total deductions	2,650
Change in net assets	3,634
Net assets at beginning of year	195,635
Net assets at end of year	\$ 199,269

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, 2006

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 2006. 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 2006 Assessment</u>
Massachusetts Bay Transportation Authority 45 High Street, Boston, MA 02110	To provide regional transportation services	\$ 146,385
South Shore Regional School District 476 Webster Street, Hanover, MA 02339	To provide vocational education to students Grades 9-12	\$ 214,605

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, 2006

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, 2006

- 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 or in trust funds for individuals, private organizations, or other governments).
- 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, stabilization and community preservation funds to be major funds.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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, 2006

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 11.9% of boat excise as uncollectible for financial reporting purposes. The Town estimates 11.9% of ambulance charges outstanding to be uncollectible. Outstanding real estate taxes are secured by tax liens, and therefore considered to be fully collectable. 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, 2006

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, 2006

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, sewer fund (special revenue fund) and enterprise fund functions are budgeted. The Town does not have legally adopted annual budgets for its remaining 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, 2006

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, 2006, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
As reported on a budgetary basis	\$ 59,993,497	\$ 64,672,416	\$ 4,545,234
Adjustment of property tax revenues to modified accrual basis	80,104		
General Fund subsidy of sewer debt		(411,569)	(411,569)
State funded teacher's pension	5,871,836	5,871,836	
Indirect costs of other funds recorded as operating transfers on budgetary basis, net of interfund charges	-	(1,205,800)	(1,205,800)
As reported on a GAAP basis	<u>\$ 65,945,437</u>	<u>\$ 68,926,883</u>	<u>\$ 2,927,865</u>

A reconciliation of the budgetary - basis to GAAP-basis for the Sewer Fund for the year ended June 30, 2006, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
As reported on a budgetary basis	\$ 3,353,581	\$ 2,319,423	\$(393,628)
MWPAT subsidies received	348,740	348,740	
General fund subsidy of sewer debt		411,569	411,569
Sewer fund capital projects activity not included with budgetary activity		363,370	
Timing of expenditures		(160,633)	
Indirect costs recorded as operating transfers			
On budgetary basis, net interfund charges	-	393,628	393,628
As reported on a GAAP basis	<u>\$ 3,702,321</u>	<u>\$ 3,676,097</u>	<u>\$ 411,569</u>

C. Fund Equities

Operations of the various Town funds for fiscal 2006 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, 2006

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, 2006, the Town had the following general fund equities in the fund financial statements:

Reserved for encumbrances and continued appropriations	\$ 962,993
Unreserved:	
Undesignated	2,434,890
Designated for expenditure	3,395,744
Snow and ice and other deficits	(227,572)
Designated other	<u>36,371</u>
Total unreserved	<u>5,639,433</u>
Total General Fund Equities	<u>\$ 6,602,426</u>

Except for the sewer fund, which reports a reservation for encumbrances and continued appropriations \$1,333,578, all other governmental fund balances are reported on the fund basis Balance Sheet as Unreserved Fund Balance 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	\$ 352,910
Special Revenue Fund balances:	
Sewer Fund	8,924,258
Community Preservation Act Fund	4,527,845
Other Special Revenue Funds	2,057,237
Permanent Funds:	
Expendable	219,810
Non-expendable	<u>860,763</u>
Total restricted net assets	<u>\$ 16,942,823</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, 2006

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, 2006 deposits totaled \$28,929,348 and had a carrying amount of \$27,397,966. Of the deposit amounts, \$5,619,478 was exposed to custodial credit risk at June 30, 2006 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. The Town has 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, 2006, 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>Average Days to Maturity</u>
Primary government:				
Massachusetts Municipal Depository Trust (MMDT)	\$ 6,081,935	\$ 6,081,935	N/A	90 days or less
Governmental money market funds	483,964	483,964	AAA	90 days
Common stock - domestic	105,989	99,098	N/A	N/A
Government securities - Federal agencies	192,126	200,000	AAA	39 months
Corporate bonds	14,092	14,679	BAA3	14 months
Certificates of deposit	<u>361,679</u>	<u>365,000</u>	FDIC insured	6-12 months
Total primary government	7,239,785	7,244,676		
Fiduciary funds:				
MMDT	<u>14,566</u>	<u>14,566</u>	N/A	90 days or less
Total fiduciary funds	<u>14,566</u>	<u>14,566</u>		
Grand total investments	<u>\$ 7,254,351</u>	<u>\$ 7,259,242</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.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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 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	\$ 699,005	\$ -	\$ 699,005	\$ 432,931
Tax liens, deferrals and foreclosures	932,978		932,978	932,978
Excise taxes	464,353	5,469	458,884	464,353
Charges for service	829,489	69,522	759,967	829,489
Betterments	4,633,884		4,633,884	4,633,884
Intergovernmental:				
School Building Assistance	12,201,446		12,201,446	12,201,446
Commonwealth highway awards	932,815		932,815	932,815
Community Preservation matching funds	832,961		832,961	832,961
Accrued MWPAT subsidies	1,936,095		1,936,095	1,936,095
MWPAT drawdowns	362,895		362,895	362,895
Other	<u>68,472</u>		<u>68,472</u>	<u>36,097</u>
Totals – governmental funds	23,894,393			<u>\$ 23,595,944</u>
Accrual of unbilled sewer charges	<u>789,000</u>	<u>-</u>	<u>789,000</u>	
Totals – governmental activities	<u>\$ 24,683,393</u>	<u>\$ 74,991</u>	<u>\$ 24,608,402</u>	

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

<u>Receivable type</u>	<u>Gross Amount</u>
Solid waste charges	\$ 463,870
Water charges and betterments	<u>608,653</u>
Totals	<u>\$ 1,072,523</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

Note 6. Capital Assets

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

	(restated) Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 16,504,024	\$ 783,430	\$ -	\$ 17,287,454
Construction in progress	<u>9,332,064</u>	<u>677,811</u>	<u>8,693,351</u>	<u>1,316,524</u>
Sub-total	25,836,088	1,461,241	8,693,351	18,603,978
Capital assets being depreciated:				
Land improvements		358,490		358,490
Buildings and related improvements	45,193,613	5,105,381		50,298,994
Equipment, machinery and vehicles	17,996,768	1,600,890	31,000	19,566,658
Books, software, and other	3,001,151	227,189		3,228,340
Infrastructure	<u>84,317,532</u>	<u>4,967,401</u>	<u>-</u>	<u>89,284,933</u>
Sub-total	150,509,064	12,259,351	31,000	162,737,415
Less accumulated depreciation:				
Land improvements		29,874		29,874
Buildings and related improvements	13,671,763	1,805,764		15,477,527
Equipment, machinery, and vehicles	11,736,125	1,091,483	31,000	12,796,608
Books, software, and other	2,066,326	249,504		2,315,830
Infrastructure	<u>23,637,627</u>	<u>2,081,842</u>	<u>-</u>	<u>25,719,469</u>
Sub-total	<u>51,111,841</u>	<u>5,258,467</u>	<u>31,000</u>	<u>56,339,308</u>
Governmental capital assets, net	<u>\$ 125,233,311</u>	<u>\$ 8,462,125</u>	<u>\$ 8,693,351</u>	<u>\$ 125,002,085</u>
	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 2,070,100	\$ 431,417	\$ -	\$ 2,501,517
Construction in progress	<u>813,094</u>	<u>723,109</u>	<u>620,126</u>	<u>916,077</u>
Sub-total	2,883,194	1,154,526	620,126	3,417,594
Capital assets being depreciated:				
Buildings and related improvements	2,964,058			2,964,058
Equipment, machinery & vehicles	1,036,482	185,969	152,527	1,069,924
Infrastructure	<u>27,192,015</u>	<u>703,744</u>	<u>20,840</u>	<u>27,874,919</u>
Sub-total	31,192,555	889,713	173,367	31,908,901
Less accumulated depreciation:				
Buildings and related improvements	787,421	69,079		856,500
Equipment, machinery & vehicles	544,428	92,525	51,314	585,639
Infrastructure	<u>8,554,836</u>	<u>547,079</u>	<u>20,840</u>	<u>9,081,075</u>
Sub-total	<u>9,886,685</u>	<u>708,683</u>	<u>72,154</u>	<u>10,523,214</u>
Business-type activities capital assets, net	<u>\$ 24,189,064</u>	<u>\$ 1,335,556</u>	<u>\$ 721,339</u>	<u>\$ 24,803,281</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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

Governmental activities:

General government	\$ 168,948
Public safety	470,683
Education	1,919,132
Public works	2,538,024
Culture and recreation	<u>161,680</u>
Total depreciation expense – governmental activities	<u>\$5,258,467</u>

Business-type activities:

Solid waste	\$ 66,858
Water	<u>641,825</u>
Total depreciation expense – business-type activities	<u>\$ 708,683</u>

Note 7. Interfund Balances and Activity

There are no amounts due to or from funds at June 30, 2006.

Interfund transfers, for the fiscal year ended June 30, 2006, consisted of the following:

	<u>General Fund</u>	<u>Sewer Fund</u>	<u>Stabilization Fund</u>	<u>Other Governmental Funds</u>
Appropriated transfers from/to various funds to fund FY 2006 operating fund	\$ 3,339,434	\$ -	\$ (3,180,000)	\$ (159,434)
Subsidy of sewer debt	<u>(411,569)</u>	<u>411,569</u>	<u>-</u>	<u>-</u>
Totals on governmental fund basis	2,927,865	411,569	<u>\$ (3,180,000)</u>	<u>\$ (159,434)</u>
Subsidy of sewer debt	411,569	(411,569)		
Amounts transferred from other funds to fund indirect costs appropriated in general fund	<u>1,205,800</u>	<u>(393,628)</u>		
Totals on budgetary basis	<u>\$ 4,545,234</u>	<u>\$ (393,628)</u>		

Note 8. Long-term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

<u>Purpose</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Governmental activities:					
Sewer, 1.93-4.61%, due 1996-2023	\$ 12,126,849	\$ -	\$ (846,274)	\$ 11,280,575	\$ 818,677
Schools, 1.93-5.15%, due 1996-2021	23,123,000		(1,818,000)	21,305,000	1,745,000
Multipurpose and other, 4.61-5.15%, due 1996-2021	<u>7,963,000</u>	<u>-</u>	<u>(1,348,000)</u>	<u>6,615,000</u>	<u>1,285,000</u>
Total governmental bonds payable	43,212,849		(4,012,274)	39,200,575	3,848,677
Compensated absences	<u>5,665,124</u>	<u>-</u>	<u>(129,692)</u>	<u>5,535,432</u>	<u>-</u>
Total governmental noncurrent liabilities	<u>\$ 48,877,973</u>	<u>\$ -</u>	<u>\$ (4,141,966)</u>	<u>\$ 44,736,007</u>	<u>\$ 3,848,677</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

<u>Purpose</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
Business-type activities:					
Water, 3.32-4.61%, due 1996-2015	\$ 785,000	\$ -	\$ (200,000)	\$ 585,000	\$ 100,000
Solid waste, 1.93-5.15, due 1996-2009	<u>195,000</u>	<u>-</u>	<u>(55,000)</u>	<u>140,000</u>	<u>55,000</u>
Total business-type activities bonds payable	980,000		(255,000)	725,000	155,000
Landfill closure liability	456,000	192,000		648,000	28,200
Compensated absences	<u>50,985</u>	<u>85,651</u>	<u>-</u>	<u>136,636</u>	<u>-</u>
Total business-type non-current Liabilities	<u>\$ 1,486,985</u>	<u>\$ 277,651</u>	<u>\$ (255,000)</u>	<u>\$ 1,509,636</u>	<u>\$ 183,200</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.

The annual requirements to amortize all general obligation bonds and loans outstanding as of June 30, 2006, 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>
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	2,966,909	1,111,675	4,078,584	80,000	7,565	87,565
2012 – 2016	11,270,760	3,867,939	15,138,699	130,000	11,238	141,238
2017 – 2021	9,328,467	1,492,839	10,821,306			
2022 – 2023	<u>973,577</u>	<u>49,178</u>	<u>1,022,755</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 39,200,575</u>	<u>\$ 12,273,399</u>	<u>\$ 51,473,974</u>	<u>\$ 725,000</u>	<u>\$ 91,018</u>	<u>\$ 816,018</u>

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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, 2006:

<u>Purpose</u>	<u>Year(s)</u> <u>Authorized</u>	<u>Unissued</u> <u>Balance</u> <u>June 30, 2005</u>	<u>Authorization</u>	<u>Issued/</u> <u>Rescinded</u>	<u>Unissued</u> <u>Balance</u> <u>June 30, 2006</u>
<u>Governmental funds:</u>					
School projects	2004/2005	\$ 270,000	\$ 270,000	\$ -	\$ 540,000
Various DPW and other projects	2004 - 2006	1,020,500	1,792,000	500	2,812,000
Sewer extension	2003	189,420			189,420
Sewer buildings repair and equipment	2003/2005	<u>791,000</u>	<u>-</u>	<u>3,000</u>	<u>788,000</u>
		2,270,920	2,062,000	3,500	4,329,420
<u>Enterprise funds:</u>					
Water main and other projects	2004/2006	<u>1,500,000</u>	<u>2,500,000</u>	<u>-</u>	<u>4,000,000</u>
Total authorized and unissued		<u>\$ 3,770,920</u>	<u>\$ 4,562,000</u>	<u>\$ 3,500</u>	<u>\$ 8,329,420</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.

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, 2006.

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).

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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's short-term debt outstanding as of June 30, 2006 is as follows.

<u>Purpose</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
Governmental activities:				
Sewer, 4.25%, due 5/31/2007	\$ -	\$ 160,000	\$ -	\$ 160,000
Schools, 4.25%, due 5/31/2007		540,000		540,000
Multipurpose, 4.25%, due 5/31/2007	-	1,105,000	-	1,105,000
Total governmental liabilities	<u>\$ -</u>	<u>\$ 1,805,000</u>	<u>\$ -</u>	<u>\$ 1,805,000</u>
Business-type activities:				
Water mains and pumps, 4.25%, due 5/31/2007	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000
Total business-type activities	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>

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.

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 (gross), is \$2,266,208, representing approximately 7.60% of the system wide employer assessments. The County offered a 2% discount to member Towns if the entire fiscal year assessment was paid. The Town's discount was \$45,289 for a net payment of \$2,220,919. 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, 2005 and 2004 were \$1,975,532 and \$1,908,741 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, \$5,871,836 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

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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, comp time and sick leave as they provide services. The cost of these benefits is recorded as an expenditure of the applicable fund when incurred. Vacation, compensatory and sick pay accumulate 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. Accumulated vacation, compensatory time and unused sick leave have 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 406 retirees and their dependents. The cost of retiree's healthcare benefits is recognized as an expenditure as premiums are paid. For 2006, those costs totaled approximately \$1,178,000.

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, 2006, \$648,000 is included as a liability in the Solid Waste 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 \$225,000.

Note 13. Commitments and Contingencies

The Town is named as a defendant in several lawsuits at June 30, 2006, 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.

TOWN OF MARSHFIELD, MASSACHUSETTS

Notes to Financial Statements

June 30, 2006

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.

Note 14. Prior Period Restatement

The beginning balance of Net Assets, as reported in the Statement of Activities, has been restated as follows:

	Governmental Activities
Net assets June 30, 2005	\$ 118,493,467
Sewer infrastructure and other sewer assets not capitalized previous years	3,476,572
Other governmental assets not capitalized and adjustments	<u>26,578</u>
Net assets as restated, July 1, 2005	<u>\$ 121,996,617</u>