

**TOWN OF TOWNSEND, MASSACHUSETTS**

**REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**TABLE OF CONTENTS**

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2 – 8
Basic Financial Statements	
Statement of Net Assets	9
Statement of Activities	10 – 11
Governmental Funds – Balance Sheet	12
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets	14
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	16
Proprietary Funds – Statement of Net Assets	17
Proprietary Funds – Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Proprietary Funds – Statement of Cash Flows	19
Fiduciary Funds – Statement of Fiduciary Net Assets	20
Fiduciary Funds – Statement of Changes in Fiduciary Net Assets	21
Notes to Basic Financial Statements	22 – 48

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Board of Selectmen  
Town of Townsend, 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 Townsend, Massachusetts, as of and for the year ended June 30, 2006, which collectively comprise the Town of Townsend, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Townsend, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Townsend, Massachusetts as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 8 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.

*R. E. Brown & Company*

March 1, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Townsend, we offer readers of the Town's basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in this report.

### **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 basic financial statements consist of three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Basic 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 the cash flows*. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

**Fund Financial Statements** - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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.

**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 the *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 of Townsend adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

*Proprietary Funds - Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town has one enterprise fund:

- *Water Enterprise Fund* accounts for the water activity of the Town.

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

Private Purpose Trust Funds and Agency Funds are each reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "Private Purpose Trust Funds" and "Agency Funds", respectively.

*Notes to the Basic 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.

### ***Government-wide Financial Analysis:***

The chart on the following page summarizes key financial components of the Town's Statement of Net Assets.

Net assets of \$11.2 million reflect the Town's investment in capital assets (e.g. land, buildings, machinery and equipment, etc...) less any related debt used to acquire those assets that remain outstanding. The Town uses these capital assets to provide services to residents; therefore, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves, cannot be used to liquidate these liabilities. Total net assets increased from \$14.8 to \$16.3 million from the prior fiscal year, an increase of \$1,420,908. An increase in net assets means that the change in total assets exceeded the change in total liabilities.

The Town increased its total liabilities by \$78,372 over the previous fiscal year. The Town's total assets increased by \$1,499,280 over the previous year.

An additional portion of the Town's net assets totaling \$2.4 million represents resources that are subject to external restrictions on how they may be used. The restricted net assets relate to government activities.

**Town of Townsend - Financial Highlights**  
**Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>
<b>Assets:</b>						
Current assets	\$ 5,991,471	\$ 5,583,377	\$ 604,006	\$ 586,170	\$ 6,595,477	\$ 6,169,547
Capital Assets (net of accumulated depreciation)	14,028,222	13,752,494	2,621,342	1,823,720	16,649,564	15,576,214
<b>Total assets</b>	<u>20,019,693</u>	<u>19,335,871</u>	<u>3,225,348</u>	<u>2,409,890</u>	<u>23,245,041</u>	<u>21,745,761</u>
<b>Liabilities:</b>						
Current liabilities (excluding debt)	386,889	593,928	61,914	12,915	448,803	606,843
Noncurrent liabilities (excluding debt)	735,623	806,679	-	-	735,623	806,679
Current debt	313,171	348,171	65,821	40,000	378,992	388,171
Noncurrent debt	4,342,541	4,655,712	1,019,818	390,000	5,362,359	5,045,712
<b>Total liabilities</b>	<u>5,778,224</u>	<u>6,404,490</u>	<u>1,147,553</u>	<u>442,915</u>	<u>6,925,777</u>	<u>6,847,405</u>
<b>Net Assets:</b>						
Capital assets net of related debt	9,689,967	8,841,297	1,535,703	1,393,720	11,225,670	10,235,017
Restricted	2,425,178	1,851,677	-	-	2,425,178	1,851,677
Unrestricted	2,126,324	2,238,407	542,092	573,255	2,668,416	2,811,662
<b>Total net assets</b>	<u>\$ 14,241,469</u>	<u>\$ 12,931,381</u>	<u>\$ 2,077,795</u>	<u>\$ 1,966,975</u>	<u>\$ 16,319,264</u>	<u>\$ 14,898,356</u>

The remaining balance of unrestricted net assets totaling \$2,668,416 or 16% of total net assets may be used to meet the Town's on-going obligations to its residents and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all these categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was an increase of \$110,820 in net assets reported in connection with the water business-type activity. This \$110,820 change in net assets is attributable to budgeting revenues sufficient to cover current operational costs. There was a transfer to the water enterprise fund/business-type activity of \$59,910 to service debt on refunded bonds for a water loop expansion.

The governmental activities net assets increased by \$1,310,088 during the current fiscal year. The Town continues to experience fiscal constraints, yet is moving in a positive direction. Net assets for all operations increased by \$1,420,908.

The Town's total revenues increased by \$335 thousand or 2.1% over the prior fiscal year, which was substantially related to governmental activities. The biggest contributor to the revenue increase was an increase in property taxes and excise taxes of over \$180 thousand. The Town's total expenses increased only slightly by \$204 thousand over the prior fiscal year or 1.4%.

## Town of Townsend-Financial Highlights - Statement of Activities

	Governmental Activities		Business-type Activities		Total Primary Government	
	FY 2006	FY 2005	FY 2006	FY 2005	FY 2006	FY 2005
<b>Revenues:</b>						
<i>Program Revenues</i>						
Charges for services	\$ 675,359	\$ 852,273	\$ 502,667	\$ 491,818	\$ 1,178,026	\$ 1,344,091
Operating grants and contributions	773,598	1,080,284	51,700	-	825,298	1,080,284
Capital grants and contributions	534,922	267,123	4,950	4,995	539,872	272,118
<i>General Revenues</i>						
Real estate and personal property taxes	10,966,139	10,717,121	-	-	10,966,139	10,717,121
MV & Other Excise	1,025,819	1,084,389	-	-	1,025,819	1,084,389
Nonrestricted grants and contributions	1,350,369	1,269,558	-	-	1,350,369	1,269,558
Unrestricted investment income	129,464	86,900	-	-	129,464	86,900
Other revenues	378,325	134,864	-	-	378,325	134,864
<b>Total Revenues</b>	<b>15,833,995</b>	<b>15,492,512</b>	<b>559,317</b>	<b>496,813</b>	<b>16,393,312</b>	<b>15,989,325</b>
<b>Expenses:</b>						
General Government	1,136,598	1,715,352	-	-	1,136,598	1,715,352
Public Safety	2,625,258	2,483,041	-	-	2,625,258	2,483,041
Education	7,508,813	7,181,199	-	-	7,508,813	7,181,199
Public Works	1,060,605	930,160	-	-	1,060,605	930,160
Sanitation	590,825	451,343	-	-	590,825	451,343
Human Services	215,717	236,483	-	-	215,717	236,483
Culture and Recreation	68,531	235,027	-	-	68,531	235,027
Employee Benefits	967,912	776,500	-	-	967,912	776,500
State and County Assessments	64,625	50,397	-	-	64,625	50,397
Interest	225,113	245,882	-	-	225,113	245,882
Water	-	-	508,407	462,318	508,407	462,318
<b>Total Expenses</b>	<b>14,463,997</b>	<b>14,305,384</b>	<b>508,407</b>	<b>462,318</b>	<b>14,972,404</b>	<b>14,767,702</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	1,369,998	1,187,128	50,910	34,495	1,420,908	1,221,623
<b>Transfers</b>	(59,910)	(62,070)	59,910	62,070	-	-
<b>Change in Net Assets</b>	1,310,088	1,125,058	110,820	96,565	1,420,908	1,221,623
<b>Net Assets - Beginning</b>	12,931,381	11,806,323	1,966,975	1,870,410	14,898,356	13,676,733
<b>Net Assets - Ending</b>	\$ 14,241,469	\$ 12,931,381	\$ 2,077,795	\$ 1,966,975	\$ 16,319,264	\$ 14,898,356

The water business type activity revenues and expenses did not materially change from the previous fiscal year. Net Assets increased \$110,820, with an increase of \$141,983 in capital assets, net of related debt, and a decrease in unrestricted assets of (\$31,163). This increase is a direct result of the East Side Improvement Project that includes expansion of existing water mains and a new pumping station.

### ***Financial Analysis of the Governmental 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.

At the end of the current fiscal year, governmental funds reported combined ending liabilities and fund balances of \$5.9 million, an increase of \$408,094 in comparison with the prior year. Approximately \$2.9 million of this amount constitutes *undesignated fund balance*, which is available for spending at the Town's discretion. Total fund balance of the governmental funds at June 30, 2006 was \$4.1 million, an increase of \$256 thousand or 6.5% over the previous fiscal year. Over \$751 thousand of unreserved fund balance was designated to supplement the FY07 operating budget.

The general fund is the chief operating fund. At the end of the current fiscal year, undesignated fund balance of the general fund was \$503 thousand, while the total fund balance was \$1.4 million. Unreserved fund balance represents 10% of total general fund expenditures.

General fund revenues for FY 2006 were \$13.8 million with property taxes (\$10.8 million) and intergovernmental (\$1.4 million) the major components of the Town's revenue sources. General Fund expenditures were \$14.3 million for FY 2006 with education (\$7.5 million) and public safety (\$2.4 million) the major components of spending. The fund balance of the general fund balance of the Town decreased by \$541,899 or 3.8% of general fund expenditures.

The stabilization fund has accumulated a fund balance of \$917,255 that represents 6.4% of general fund expenditures. These funds can be used for general or capital purposes upon Town Meeting approval. Please refer to **Note 10** for additional information.

### ***General Fund Budget Highlights***

There were no changes between the original and final revenue budget of the Town. The final expenditure budget increased \$117,532 over the original. The Town budgeted \$13.7 million of revenues and \$14.8 in expenditures, drawing on transfers and prior year surplus to finance the difference.

**Capital Asset and Debt Administration**

**Capital assets** - In conjunction with the operating budget, the Town annually prepared capital budgets for the upcoming fiscal year.

The Town’s investment in capital assets for governmental and business-type activity as of June 30, 2006, amounts to \$16.6 million, net of accumulated depreciation. The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, vehicles, art and historical treasures, library books, construction in process, and infrastructure.

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ 3,293,126	\$ 262,257	\$ 3,555,383
Art & Historical Treasures	55,200	-	55,200
Buildings & Improvements	3,986,984	153,645	4,140,629
Capital Improvement other than bldg	208,478	375,226	583,704
Machinery and Equipment	801,895	129,732	931,627
Vehicles	109,387	29,183	138,570
Library books	109,546	-	109,546
Infrastructure	5,459,740	782,312	6,242,052
Construction in Progress	3,866	888,987	892,853
<b>Total</b>	<b>\$ 14,028,222</b>	<b>\$ 2,621,342</b>	<b>\$ 16,649,564</b>

**Long term debt** – Governmental activities outstanding long-term debt as of June 30, 2006, totaled \$4.6 million. \$3 million (64%) is for a general obligation used to finance landfill capping, Harbor Fire Station, and purchase 6 & 13 Elm Street properties and the \$1.2 million (27%) is for Memorial Hall Renovation. The governmental activities (business type activities debt is not included) long-term debt consists of the following:

<b>Governmental Activities</b>	<b>Outstanding June 30, 2006</b>
Title V Phase I	\$ 152,434
Title V Phase II	123,278
Memorial Hall Restoration	1,250,000
Land Acquisition	120,000
General Obligation	<u>3,010,000</u>
<b>Total Governmental Activities</b>	<b><u>\$4,655,712</u></b>

The outstanding long-term debt as of June 30, 2006 for the business type activity totaled \$1,085,639: \$390,000 for refinancing of water main loan and \$695,639 for Phase 1 of the East Side Improvement Project.

### ***Economic Factors and Next Years Budgets & Rates***

The Town's leadership (elected and appointed officials) considered many factors when settling the fiscal 2007 budget and tax rates including the following:

- A significant financial factor was the local aid from the State, which is estimated to be \$1,789,314, an increase of \$379,708 over FY06.
- The fiscal 2007 tax rate was set at \$12.47 a \$ .22 increase over fiscal 2006. In fiscal 2007 the rate increased due to the overall increase in the tax levy. Property values have remained more stable in 2007 in contrast to the surging housing market in 2006. The rate brought the tax levy to \$3,063 less than the allowable levy limit.
- The Board of Selectmen voted during the classification hearing to maintain the same tax rate for all classes of property in order to continue to encourage development of the commercial tax base within the town.
- Town Officials are exploring the opportunity to consolidate various functions in an effort to control costs for future budgets.

### **Request for Information**

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town of Townsend, 272 Main Street, Townsend, MA 01469.

**TOWN OF TOWNSEND, MASSACHUSETTS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	<b>PRIMARY GOVERNMENT</b>		
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b><u>ASSETS</u></b>			
CURRENT:			
CASH AND SHORT-TERM INVESTMENTS	\$ 4,372,170	\$ 579,452	\$ 4,951,622
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:			
REAL ESTATE AND PERSONAL PROPERTY TAXES	434,242	-	434,242
TAX LIENS	418,314	-	418,314
MOTOR VEHICLE EXCISE TAXES	102,611	-	102,611
USER FEES	-	21,404	21,404
DEPARTMENTAL AND OTHER	259,040	-	259,040
INTERGOVERNMENTAL	399,720	-	399,720
OTHER ASSETS	5,374	3,150	8,524
NONCURRENT:			
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	14,028,222	2,621,342	16,649,564
<b>TOTAL ASSETS</b>	<b>20,019,693</b>	<b>3,225,348</b>	<b>23,245,041</b>
<b><u>LIABILITIES</u></b>			
CURRENT:			
ACCOUNTS PAYABLE	274,176	58,197	332,373
OTHER LIABILITIES	14,035	2,927	16,962
ACCRUED INTEREST	14,222	790	15,012
CAPITAL LEASES PAYABLE	36,790	-	36,790
BONDS AND NOTES PAYABLE	313,171	65,821	378,992
LANDFILL POSTCLOSURE CARE COSTS	47,666	-	47,666
NONCURRENT:			
CAPITAL LEASES PAYABLE	38,589	-	38,589
BONDS AND NOTES PAYABLE	4,342,541	1,019,818	5,362,359
LANDFILL POSTCLOSURE CARE COSTS	697,034	-	697,034
<b>TOTAL LIABILITIES</b>	<b>5,778,224</b>	<b>1,147,553</b>	<b>6,925,777</b>
<b><u>NET ASSETS</u></b>			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	9,689,967	1,535,703	11,225,670
RESTRICTED FOR:			
STREETS	333,544	-	333,544
PERMANENT FUNDS:			
EXPENDABLE	139,300	-	139,300
NONEXPENDABLE	267,981	-	267,981
OTHER PURPOSES	1,684,353	-	1,684,353
UNRESTRICTED	2,126,324	542,092	2,668,416
<b>TOTAL NET ASSETS</b>	<b>\$ 14,241,469</b>	<b>\$ 2,077,795</b>	<b>\$ 16,319,264</b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2006**

<b><u>FUNCTIONS/PROGRAMS</u></b>	<b><u>PROGRAM REVENUES</u></b>			<b><u>NET (EXPENSE) REVENUE</u></b>	
	<b><u>EXPENSES</u></b>	<b><u>CHARGES FOR SERVICES</u></b>	<b><u>OPERATING GRANTS AND CONTRIBUTIONS</u></b>		<b><u>CAPITAL GRANTS AND CONTRIBUTIONS</u></b>
<b>PRIMARY GOVERNMENT:</b>					
GOVERNMENTAL ACTIVITIES:					
GENERAL GOVERNMENT	\$ 1,136,598	\$ 143,275	\$ 338,080	\$ -	\$ (655,243)
PUBLIC SAFETY	2,625,258	467,781	155,196	-	(2,002,281)
EDUCATION	7,508,813	-	-	-	(7,508,813)
PUBLIC WORKS	1,060,605	5,858	9,116	534,922	(510,709)
SANITATION	590,825	-	-	-	(590,825)
HUMAN SERVICES	215,717	53,353	165,677	-	3,313
CULTURE & RECREATION	68,531	5,092	74,406	-	10,967
EMPLOYEE BENEFITS	967,912	-	16,719	-	(951,193)
STATE & COUNTY ASSESSMENTS	64,625	-	-	-	(64,625)
INTEREST	225,113	-	14,404	-	(210,709)
TOTAL GOVERNMENTAL ACTIVITIES	<u>14,463,997</u>	<u>675,359</u>	<u>773,598</u>	<u>534,922</u>	<u>(12,480,118)</u>
BUSINESS-TYPE ACTIVITIES:					
WATER	<u>508,407</u>	<u>502,667</u>	<u>51,700</u>	<u>4,950</u>	<u>50,910</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>508,407</u>	<u>502,667</u>	<u>51,700</u>	<u>4,950</u>	<u>50,910</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 14,972,404</u>	<u>\$ 1,178,026</u>	<u>\$ 825,298</u>	<u>\$ 539,872</u>	<u>\$ (12,429,208)</u>

See accompanying notes to the basic financial statements

(continued)

**TOWN OF TOWNSEND, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2006**

	<b>PRIMARY GOVERNMENT</b>		
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>CHANGES IN NET ASSETS:</b>			
NET (EXPENSE) REVENUE FROM PREVIOUS PAGE	\$ (12,480,118)	\$ 50,910	\$ (12,429,208)
GENERAL REVENUES:			
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS PAYABLE	10,916,118	-	10,916,118
TAX LIENS	48,021	-	48,021
MOTOR VEHICLE AND OTHER EXCISE TAXES	1,025,819	-	1,025,819
PENALTIES AND INTEREST ON TAXES	55,559	-	55,559
PAYMENTS IN LIEU OF TAXES	2,000	-	2,000
GRANTS AND CONTRIBUTIONS NOT RESTRICTED TO SPECIFIC PROGRAMS	1,350,369	-	1,350,369
UNRESTRICTED INVESTMENT INCOME	129,464	-	129,464
MISCELLANEOUS	322,766	-	322,766
TRANSFERS, NET	(59,910)	59,910	-
TOTAL GENERAL REVENUES AND TRANSFERS	13,790,206	59,910	13,850,116
CHANGE IN NET ASSETS	1,310,088	110,820	1,420,908
<b>NET ASSETS:</b>			
<b>BEGINNING OF YEAR</b>	12,931,381	1,966,975	14,898,356
<b>END OF YEAR</b>	\$ 14,241,469	\$ 2,077,795	\$ 16,319,264

See accompanying notes to the basic financial statements

(concluded)

**TOWN OF TOWNSEND, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006**

<b><u>ASSETS</u></b>	<b><u>GENERAL</u></b>	<b><u>STABILIZATION</u></b>	<b><u>NONMAJOR GOVERNMENTAL FUNDS</u></b>	<b><u>TOTAL GOVERNMENTAL FUNDS</u></b>
CASH AND SHORT-TERM INVESTMENTS	\$ 1,575,710	\$ 917,255	\$ 1,879,205	\$ 4,372,170
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:				
REAL ESTATE AND PERSONAL PROPERTY TAXES	434,242	-	-	434,242
TAX LIENS	418,314	-	-	418,314
MOTOR VEHICLE EXCISE TAXES	102,611	-	-	102,611
DEPARTMENTAL AND OTHER	-	-	259,040	259,040
INTERGOVERNMENTAL	-	-	399,720	399,720
OTHER ASSETS	4,261	-	1,113	5,374
<b>TOTAL ASSETS</b>	<b><u>\$ 2,535,138</u></b>	<b><u>\$ 917,255</u></b>	<b><u>\$ 2,539,078</u></b>	<b><u>\$ 5,991,471</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
LIABILITIES:				
ACCOUNTS PAYABLE	\$ 153,062	\$ -	\$ 121,114	\$ 274,176
OTHER LIABILITIES	14,035	-	-	14,035
DEFERRED REVENUES	932,961	-	592,584	1,525,545
<b>TOTAL LIABILITIES</b>	<b><u>1,100,058</u></b>	<b><u>-</u></b>	<b><u>713,698</u></b>	<b><u>1,813,756</u></b>
FUND BALANCES:				
RESERVED FOR:				
ENCUMBRANCES AND CONTINUING APPROPRIATIONS	180,143	-	-	180,143
PERPETUAL PERMANENT FUNDS	-	-	267,981	267,981
UNRESERVED				
DESIGNATED FOR SUBSEQUENT YEARS' EXPENDITURES	751,430	-	-	751,430
UNDESIGNATED, REPORTED IN:				
GENERAL FUND	503,507	-	-	503,507
SPECIAL REVENUE FUNDS	-	917,255	1,100,642	2,017,897
CAPITAL PROJECTS FUNDS	-	-	317,457	317,457
PERMANENT FUNDS	-	-	139,300	139,300
<b>TOTAL FUND BALANCES</b>	<b><u>1,435,080</u></b>	<b><u>917,255</u></b>	<b><u>1,825,380</u></b>	<b><u>4,177,715</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,535,138</u></b>	<b><u>\$ 917,255</u></b>	<b><u>\$ 2,539,078</u></b>	<b><u>\$ 5,991,471</u></b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FISCAL YEAR ENDED JUNE 30, 2006**

	<u>GENERAL</u>	<u>STABILIZATION</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>REVENUES:</u></b>				
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 10,830,006	\$ -	\$ -	\$ 10,830,006
MOTOR VEHICLE AND OTHER EXCISE TAXES	1,053,162	-	-	1,053,162
PENALTIES AND INTEREST ON TAXES	55,559	-	-	55,559
INTERGOVERNMENTAL CHARGES FOR SERVICES	1,433,194	-	795,448	2,228,642
INVESTMENT INCOME	109,484	19,979	14,654	144,117
CONTRIBUTIONS & DONATIONS DEPARTMENTAL AND OTHER	405,607	-	327,191	732,798
<b>TOTAL REVENUES</b>	<b>13,887,012</b>	<b>19,979</b>	<b>1,548,844</b>	<b>15,455,835</b>
<b><u>EXPENDITURES:</u></b>				
CURRENT:				
GENERAL GOVERNMENT	922,988	-	214,237	1,137,225
PUBLIC SAFETY	2,470,748	-	100,059	2,570,807
EDUCATION	7,538,513	-	-	7,538,513
PUBLIC WORKS	827,196	-	263,490	1,090,686
SANITATION	670,045	-	4,200	674,245
HUMAN SERVICES	126,138	-	89,579	215,717
CULTURE & RECREATION	221,021	-	84,163	305,184
EMPLOYEE BENEFITS	967,912	-	-	967,912
STATE & COUNTY ASSESSMENTS	64,625	-	-	64,625
DEBT SERVICE				
PRINCIPAL	348,171	-	-	348,171
INTEREST	226,467	-	-	226,467
<b>TOTAL EXPENDITURES</b>	<b>14,383,824</b>	<b>-</b>	<b>755,728</b>	<b>15,139,552</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(496,812)</b>	<b>19,979</b>	<b>793,116</b>	<b>316,283</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
OPERATING TRANSFERS IN	214,823	200,000	-	414,823
OPERATING TRANSFERS OUT	(259,910)	-	(214,823)	(474,733)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(45,087)</b>	<b>200,000</b>	<b>(214,823)</b>	<b>(59,910)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(541,899)</b>	<b>219,979</b>	<b>578,293</b>	<b>256,373</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>1,976,979</b>	<b>697,276</b>	<b>1,247,087</b>	<b>3,921,342</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 1,435,080</b>	<b>\$ 917,255</b>	<b>\$ 1,825,380</b>	<b>\$ 4,177,715</b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS  
FISCAL YEAR ENDED JUNE 30, 2006**

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 4,177,715</b>
CAPITAL ASSETS (NET) USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS	14,028,222
ACCOUNTS RECEIVABLE ARE NOT AVAILABLE TO PAY FOR CURRENT-PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS	1,525,545
IN THE STATEMENT OF ACTIVITIES, INTEREST IS ACCRUED ON OUTSTANDING LONG-TERM DEBT, WHEREAS IN GOVERNMENTAL FUNDS INTEREST IS NOT REPORTED UNTIL DUE	(14,222)
LONG-TERM LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND, THEREFORE, ARE NOT REPORTED IN THE GOVERNMENTAL FUNDS	
BONDS AND NOTES PAYABLE	(4,655,712)
CAPITAL LEASES PAYABLE	(75,379)
LANDFILL POSTCLOSURE CARE COSTS	<u>(744,700)</u>
NET EFFECT OF REPORTING LONG-TERM LIABILITIES	<u>(5,475,791)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 14,241,469</u></b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FISCAL YEAR ENDED JUNE 30, 2006**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUND</b>		<b>\$ 256,373</b>
<p>GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAYS AS EXPENDITURES. HOWEVER, IN THE STATEMENT OF ACTIVITIES THE COST OF THOSE ASSETS IS ALLOCATED OVER THEIR ESTIMATED USEFUL LIVES AND REPORTED AS DEPRECIATION EXPENSE.</p>		
CAPITAL OUTLAY	610,960	
DEPRECIATION EXPENSE	<u>(403,425)</u>	
NET EFFECT OF REPORTING CAPITAL ASSETS		207,535
<p>REVENUES IN THE STATEMENT OF ACTIVITIES THAT DO NOT PROVIDE CURRENT FINANCIAL RESOURCES ARE FULLY DEFERRED IN THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES. THEREFORE, THE RECOGNITION OF REVENUE FOR VARIOUS TYPES OF ACCOUNTS RECEIVABLE (I.E. REAL ESTATE AND PERSONAL PROPERTY, MOTOR VEHICLE EXCISE, ETC.) DIFFER BETWEEN THE TWO STATEMENTS. THIS AMOUNT REPRESENTS THE NET CHANGE IN DEFERRED REVENUE</p>		
		309,967
<p>THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES DOES NOT PROVIDE FOR THE RECOGNITION OF REVENUE FROM DONATED INFRASTRUCTURE AND IS ONLY RECOGNIZED IN THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES.</p>		
		68,193
<p>THE ISSUANCE OF LONG-TERM DEBT (E.G., BONDS) PROVIDES CURRENT FINANCIAL RESOURCES TO GOVERNMENTAL FUNDS, WHILE THE REPAYMENT OF THE PRINCIPAL OF LONG-TERM DEBT CONSUMES THE FINANCIAL RESOURCES OF GOVERNMENTAL FUNDS. NEITHER TRANSACTION, HOWEVER, HAS ANY EFFECT ON NET ASSETS. ALSO, GOVERNMENTAL FUNDS REPORT THE EFFECT OF ISSUANCE COSTS, PREMIUMS, DISCOUNTS, AND SIMILAR ITEMS WHEN DEBT IS FIRST ISSUED, WHEREAS THESE AMOUNTS ARE DEFERRED AND AMORTIZED IN THE STATEMENT OF ACTIVITIES.</p>		
DEBT SERVICE PRINCIPAL PAYMENTS	<u>348,171</u>	
NET EFFECT OF REPORTING LONG-TEM DEBT		348,171
<p>SOME EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES DO NOT REQUIRE THE USE OF CURRENT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED AS EXPENDITURES IN THE GOVERNMENTAL FUNDS.</p>		
NET CHANGE IN CAPITAL LEASES	35,075	
NET CHANGE IN LANDFILL POSTCLOSURE CARE ACCRUAL	83,420	
NET CHANGE IN ACCRUED INTEREST ON LONG-TERM DEBT	<u>1,354</u>	
NET EFFECT OF RECORDING LONG-TERM LIABILITIES		<u>119,849</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 1,310,088</u></b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2006**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL BUDGETARY AMOUNTS</u>	<u>VARIANCE OVER(UNDER)</u>
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>		
<b><u>REVENUES:</u></b>				
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 10,926,003	\$ 10,926,003	\$ 10,830,006	\$ (95,997)
MOTOR VEHICLE AND OTHER EXCISE TAXES	1,058,475	1,058,475	1,053,162	(5,313)
PENALTIES & INTEREST ON TAXES	45,000	45,000	55,559	10,559
INTERGOVERNMENTAL	1,397,644	1,397,644	1,402,071	4,427
INVESTMENT INCOME	60,000	60,000	109,484	49,484
DEPARTMENTAL AND OTHER	295,525	295,525	347,977	52,452
<b>TOTAL REVENUES</b>	<u>13,782,647</u>	<u>13,782,647</u>	<u>13,798,259</u>	<u>15,612</u>
<b><u>EXPENDITURES:</u></b>				
CURRENT:				
GENERAL GOVERNMENT	1,066,499	1,058,075	922,988	135,087
PUBLIC SAFETY	2,587,748	2,600,922	2,470,748	130,174
EDUCATION	7,557,546	7,557,546	7,538,513	19,033
PUBLIC WORKS	840,840	951,622	827,196	124,426
SANITATION	677,478	677,478	670,045	7,433
HUMAN SERVICES	131,998	133,998	126,138	7,860
CULTURE & RECREATION	241,083	241,083	221,021	20,062
EMPLOYEE BENEFITS	970,533	970,533	951,192	19,341
STATE & COUNTY ASSESSMENTS	62,065	62,065	64,625	(2,560)
DEBT SERVICE:				
PRINCIPAL	348,171	348,171	348,171	-
INTEREST	245,083	245,083	212,064	33,019
<b>TOTAL EXPENDITURES</b>	<u>14,729,044</u>	<u>14,846,576</u>	<u>14,352,701</u>	<u>493,875</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(946,397)</u>	<u>(1,063,929)</u>	<u>(554,442)</u>	<u>509,487</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
OPERATING TRANSFERS IN	191,982	191,982	272,453	80,471
OPERATING TRANSFERS OUT	(259,910)	(259,910)	(259,910)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(67,928)</u>	<u>(67,928)</u>	<u>12,543</u>	<u>80,471</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(1,014,325)</u>	<u>(1,131,857)</u>	<u>(541,899)</u>	<u>589,958</u>
<b>BUDGETARY FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,918,680</u>	<u>1,918,680</u>	<u>1,918,680</u>	<u>-</u>
<b>BUDGETARY FUND BALANCE, END OF YEAR</b>	<u>\$ 904,355</u>	<u>\$ 786,823</u>	<u>\$ 1,376,781</u>	<u>\$ 589,958</u>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2006**

	<b>BUSINESS-TYPE ACTIVITY WATER ENTERPRISE FUND</b>
<b><u>ASSETS</u></b>	
CURRENT:	
CASH AND SHORT-TERM INVESTMENTS	\$ 579,452
USER FEES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:	21,404
OTHER ASSETS	3,150
TOTAL CURRENT ASSETS	604,006
NONCURRENT:	
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	2,621,342
TOTAL ASSETS	3,225,348
 <b><u>LIABILITIES</u></b>	
CURRENT:	
ACCOUNTS PAYABLE	58,197
OTHER LIABILITIES	2,927
ACCRUED INTEREST	790
BONDS AND NOTES PAYABLE	65,821
TOTAL CURRENT LIABILITIES	127,735
NONCURRENT:	
BONDS AND NOTES PAYABLE	1,019,818
TOTAL LIABILITIES	1,147,553
 <b><u>NET ASSETS</u></b>	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,535,703
UNRESTRICTED	542,092
TOTAL NET ASSETS	\$ 2,077,795

**See accompanying notes to the basic financial statements**

**TOWN OF TOWNSEND, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 FISCAL YEAR ENDED JUNE 30, 2006**

	<b>BUSINESS-TYPE ACTIVITY WATER ENTERPRISE FUND</b>
<b><u>OPERATING REVENUES:</u></b>	
CHARGES FOR SERVICES	\$ 502,667
INTERGOVERNMENTAL	4,950
DEPARTMENTALAND OTHER	51,700
TOTAL OPERATING REVENUES	559,317
<b><u>OPERATING EXPENSES:</u></b>	
GENERAL SERVICES	411,935
DEPRECIATION	76,642
TOTAL OPERATING EXPENSES	488,577
OPERATING INCOME (LOSS)	70,740
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>	
INTEREST EXPENSE	(19,830)
TOTAL NON-OPERATING REVENUES (EXPENSES), NET	(19,830)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	50,910
<b><u>OPERATING TRANSFERS:</u></b>	
OPERATING TRANSFERS IN	59,910
OPERATING TRANSFERS OUT	-
TOTAL OPERATING TRANSFERS	59,910
<b>CHANGE IN NET ASSETS</b>	110,820
<b>NET ASSETS AT BEGINNING OF YEAR</b>	1,966,975
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 2,077,795</b>

**See accompanying notes to the basic financial statements**

**TOWN OF TOWNSEND, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FISCAL YEAR ENDED JUNE 30, 2006**

	<b>BUSINESS-TYPE ACTIVITY WATER ENTERPRISE FUND</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>	
RECEIPTS FROM CUSTOMERS AND USERS	\$ 552,502
PAYMENTS TO SUPPLIERS	(180,406)
PAYMENTS TO EMPLOYEES	(183,858)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	188,238
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>	
OPERATING TRANSFERS IN	59,910
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	59,910
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>	
PROCEEDS FROM THE ISSUANCE OF BONDS AND NOTES	695,639
PRINCIPAL PAYMENTS ON BONDS AND NOTES	(40,000)
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(874,264)
INTEREST EXPENSE	(19,910)
CONSTRUCTION	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:	(238,535)
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	9,613
<b>CASH AND SHORT TERM INVESTMENTS - BEGINNING OF YEAR</b>	<b>569,839</b>
<b>CASH AND SHORT TERM INVESTMENTS - END OF YEAR</b>	<b>\$ 579,452</b>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>	
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 70,740</b>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
DEPRECIATION	76,642
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(6,815)
(INCREASE) DECREASE IN DEPOSITS	(1,408)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	49,043
INCREASE (DECREASE) IN OTHER LIABILITIES	36
TOTAL ADJUSTMENTS	117,498
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 188,238</b>

See accompanying notes to the basic financial statements

**TOWN OF TOWNSEND, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF FIDUCIARY NET ASSETS  
 JUNE 30, 2006**

	<b>PRIVATE PURPOSE TRUST FUNDS</b>	<b>AGENCY FUNDS</b>
<b><u>ASSETS</u></b>		
CASH AND SHORT-TERM INVESTMENTS	\$ 127,859	\$ 220,303
INVESTMENTS	19,921	-
TOTAL ASSETS	147,780	220,303
<b><u>LIABILITIES</u></b>		
OTHER LIABILITIES	-	220,303
<b><u>NET ASSETS</u></b>		
HELD IN TRUST FOR OTHER PURPOSES	\$ 147,780	\$ -

**See accompanying notes to the basic financial statements**

**TOWN OF TOWNSEND, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FISCAL YEAR ENDED JUNE 30, 2006**

	<b>PRIVATE PURPOSE TRUST FUNDS</b>
<b><u>ADDITIONS:</u></b>	
NET INVESTMENT INCOME (LOSS):	
INVESTMENT INCOME	\$ 6,688
<b><u>DEDUCTIONS:</u></b>	
EDUCATION - SCHOLARSHIPS	1,000
HUMAN SERVICES - CHARITY	5,863
TOTAL DEDUCTIONS	6,863
CHANGE IN NET ASSETS	(175)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	147,955
<b>NET ASSETS AT END OF YEAR</b>	\$ 147,780

**See accompanying notes to the basic financial statements**

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Town of Townsend, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant Town accounting policies:

**A. Reporting Entity**

Primary Government

The Town is a municipal corporation that is governed by a three member Board of Selectmen (the Board). The Board is responsible for appointing a Town Administrator whose responsibility is to manage the day to day operations. For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units, blended or discretely presented, for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. It has been determined that there are no component units (blended or discretely presented) for inclusion in the primary government’s financial reporting entity.

Joint Ventures

Municipal joint ventures pool resources to share the costs, risks and rewards of providing services to their participants, the general public or others. The Town is a participant in the following joint ventures:

Name	Purpose	Address	Annual Assessment
North Middlesex Regional School District	To provide grades K-12 Educational Services	23 Main Street Townsend, MA 01469	\$ 6,664,613
Nashoba Valley Technical High School	To provide grades 9-12 Vocational and Technical Education	100 Littleton Road Westford, MA. 01886	\$ 855,153

The North Middlesex Regional School District (the District) is governed by a six (6) member school committee consisting of two (2) elected representatives from the Town of Townsend. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an equity interest of approximately 43% in the joint venture.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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The Nashoba Valley Technical High School is governed by a twelve (12) member school committee consisting of one (1) elected representative from the Town of Townsend. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has no equity interest in the joint venture.

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

*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

A fund is considered major if it is the primary operating fund of the Town or it meets the following criteria:

- a. If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- b. If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- a. *Charges to customers* or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- b. *Grants and contributions* that are restricted to meeting the operational requirements of a particular function or segment.
- c. *Grants and contributions* that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and the various enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

*Fund Financial Statements*

***Governmental Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable 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 interest on general long-term debt which is recognized when due, and the non current portion of landfill post closure care costs, and capital lease obligation which are recognized when the obligations are expected to be liquidated with current expendable available resources.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Town considers property taxes as available if they are due and collected within 60 days after fiscal year-end. Licenses and permits, user charges, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received. Investment earnings are recorded as earned.

The Town reports the following major governmental funds:

- The *General fund* is the primary operating fund of the Town. It is used to account for all financial resources, except those that are required to be accounted for in another fund.
- The *Stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves.
- The *Nonmajor Governmental funds* consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:
  - The *Special Revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.
  - The *Capital Projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise and trust funds).
  - The *Permanent fund* is 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.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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***Proprietary Fund Financial Statements***

*Proprietary fund* financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary fund is reported:

- The *Water Enterprise fund* is used to account for water activities

**Fiduciary Fund Financial Statements**

*Fiduciary fund* financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held by the Town in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

- The *Private-Purpose Trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund (nonmajor governmental funds), under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Agency fund* is used to account for assets held in a purely custodial capacity.

***Government-Wide and Fund Financial Statements***

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

**D. Cash and Investments**

***Government-Wide and Fund Financial Statements***

Cash and short term investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**E. Accounts Receivable**

*Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and proprietary and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

*Real Estate, Personal Property Taxes and Tax Liens*

Real estate and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges. By law, all taxable property in the Commonwealth must be assessed at 100% of fair market value. Once levied, which is required to be at least 30 days prior to the due date, these taxes are recorded as receivables in the fiscal year of levy. Based on the Town's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. The Town ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation statute known as "Proposition 2 ½" limits the amount of increase in property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½ % of the total assessed value of all taxable property within the Town. Secondly, the tax levy cannot increase by more than 2 ½ % of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Town-wide referendum.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

*Motor Vehicle Excise*

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

*Water*

User fees are billed semi-annually (April 1 and October 1). User fees are subject to penalties and interest if they are not paid by the respective due date. Water liens are processed in December of every year and included as a lien on the property owner's tax bill. Water charges and related liens are recorded as receivables in the fiscal year of the levy.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

*Departmental and Other*

Departmental and other receivables consist primarily of ambulance and Title V receivables and are recorded as receivables in the fiscal year accrued. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

*Intergovernmental*

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recognized when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**F. Inventories**

*Government-Wide and Fund Financial Statements*

Inventories of the governmental funds and the water enterprise fund are recorded as expenditures at the time of purchase. Such inventories are not material in total to the basic financial statements, and therefore are not reported.

**G. Capital Assets**

*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, vehicles, buildings and improvements, capital improvements, machinery and equipment, art and historical treasures, and infrastructure (e.g. water mains, roadways, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets if material.

Purchases and construction costs in between \$2,500 and \$150,000 (depending on the asset class) are capitalized at the date of acquisition or construction, respectively, with expected useful lives of three years or greater.

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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Capital assets (excluding land, construction in progress, art and historical treasures) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Asset Class	Estimated Useful Life (in years)
Buildings and Improvements	40
Capital Improvements (other than buildings)	10-50
Machinery and Equipment	3-15
Vehicles	3-5
Infrastructure	40-60
Library books	10
Software	3

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the fiscal year of purchase for the various funds.

**H. Interfund Receivables and Payables**

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

**I. Interfund Transfers**

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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*Government-Wide Financial Statements*

Operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

*Fund Financial Statements*

Operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

**J. Deferred Revenue**

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

**K. Net Assets and Fund Equity**

*Government-Wide Financial Statements (Net Assets)*

Net assets are classified into three components:

- a. *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.
- b. *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.

Net assets have been “restricted” for the following:

- *Streets* represent amounts committed by the Commonwealth for the repair and/or construction of streets.
  - *Permanent funds -expendable* represents amounts held in trust for which the expenditures are restricted by various trust agreements.
  - *Permanent funds -nonexpendable* represents amounts held in trust for which only investment earnings may be expended.
  - *Other specific purposes* represents restrictions placed on assets from outside parties.
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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*Fund Financial Statements (Fund Balances)*

- a. *Fund balances* consist of funds that are reserved for amounts, that are not available for appropriation, that are legally restricted by outside parties for a specific future use, and designations of fund balances that represent tentative management plans that are subject to change.

Fund balances have been reserved for the following:

- *Encumbrances and continuing appropriations* represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.
- *Perpetual permanent funds* represent amounts held in trust for which only investment earnings may be expended.

Fund balances have been designated for the following:

- *Subsequent year's expenditures* represent amounts appropriated for the fiscal year 2007 operating budget.
- b. *Undesignated fund balances* – all other fund balances that do not meet the definition of “reserved” or “designated.”

**L. Long-term debt**

*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

*Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

**M. Investment Income**

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**N. Compensated Absences**

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The total amount of sick and vacation costs in future years is not material to the basic financial statements and has not been recorded on the basic financial statements.

**O. Use of Estimates**

*Government-Wide and Fund Financial Statements*

The preparation of the accompanying 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/expenses during the reporting period. Actual results could vary from estimates that were used.

**P. Total Column**

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*A. Budgetary Basis of Accounting*

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the Town adopts an annual budget for the general fund as well as for those special revenue funds for which the provisions of Chapter 44, Section 53f11/2 have been adopted. The budgets for all departments and operations of the Town, except that of the public school districts, are prepared under the direction of the Town Administrator. The School Districts' budgets are prepared under the direction of the School Committees. The level of expenditures may not legally exceed appropriations for each department or undertaking in the following categories: (1) salaries and wages; (2) ordinary maintenance; and (3) capital outlays.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Original and supplemental appropriations are enacted upon by a Town Meeting vote. Management may not amend the budget without seeking the approval of the governing body. The Town's Finance Committee can legally transfer funds from its reserve fund to other appropriations within the budget without seeking Town Meeting approvals. The original fiscal year 2006 approved budget authorized \$14,676,387 in current year appropriations and other amounts to be raised and \$52,657 in encumbrances and appropriations carried over from previous fiscal years. Supplemental appropriations of \$117,532 were approved at one Special Town Meeting for fiscal year 2006.

The Town Accountant has the responsibility to ensure that budgetary controls are maintained and monitored through the accounting system.

*B. Budgetary – GAAP Reconciliation*

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2006, is presented below:

Net change in fund balance - budgetary basis	\$ (541,899)
Basis of accounting differences:	
Increase in revenue for on-behalf payments - MTRS	16,719
Increase in expenditures for on-behalf payments - MTRS	(16,719)
Increase in revenue for MWPAT subsidy	14,404
Increase in expenditures for the MWPAT subsidy	<u>(14,404)</u>
Net change in fund balance - GAAP basis	<u>\$ (541,899)</u>

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 3 – DEPOSITS AND INVESTMENTS**

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels unless collateralized by the financial institutions involved.

*Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are fully insured by FDIC insurance, DIF insurance or collateralized with securities held by the Town or the Town's agent in the Town's name. The Town also carries deposits that are not collateralized and are uninsured. As of June 30, 2006, the bank balances of uninsured and uncollateralized deposits are \$4,637,784.

*Investments*

Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreement guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The Town's fair value of its investment in MMDT represents their value of the pool's shares. The Town's Trust Funds have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other specified investments.

The composition of the Town's bank recorded deposits and investments fluctuates depending primarily on the timing of property tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.

The Town did not hold or own any fixed income securities as of June 30, 2006.

*Custodial Credit Risk – Investments*

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of an outside party. The Town does not have an investment policy for custodial credit risk.

*Credit Risk*

The Town has not adopted a formal policy related to Credit Risk.

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 4 – RECEIVABLES**

The receivables at June 30, 2006 for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Real estate and personal property taxes	\$ 441,025	\$ (6,783)	\$ 434,242
Tax liens	418,314	-	418,314
Motor vehicle excise taxes	119,961	(17,350)	102,611
Departmental and other	398,298	(139,258)	259,040
Intergovernmental	399,720	-	399,720
Total	<u>\$ 1,777,318</u>	<u>\$ (163,391)</u>	<u>\$ 1,613,927</u>

The receivables at June 30, 2006, for the water enterprise fund consists of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<i>Water</i>			
User fees	<u>\$ 21,404</u>	<u>\$ -</u>	<u>\$ 21,404</u>

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue Analysis

Receivable Type:	General Fund	Nonmajor Governmental Funds	Total
Property Taxes	\$ 412,036	\$ -	\$ 412,036
Tax Liens	418,314	-	418,314
Motor vehicle excise taxes	102,611	-	102,611
Departmental and other	-	259,040	259,040
Intergovernmental	-	333,544	333,544
<b>Total</b>	<b>\$ 932,961</b>	<b>\$ 592,584</b>	<b>\$ 1,525,545</b>

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 5 – CAPITAL ASSETS**

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

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,872,518	\$ 337,108	\$ 83,500	\$ 3,293,126
Art and historical treasures	55,200	-	-	55,200
Construction in progress	169,872	984	(166,990)	3,866
Total capital assets not being depreciated	<u>3,097,590</u>	<u>338,092</u>	<u>(83,490)</u>	<u>3,352,192</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements	5,762,144	-	(83,500)	5,678,644
Capital improvements (other than buildings)	195,483	-	166,990	362,473
Machinery and equipment	2,489,112	144,669	(80,000)	2,553,781
Vehicles	898,048	74,442	(59,587)	912,903
Library books	254,291	18,106	-	272,397
Software	30,709	-	-	30,709
Infrastructure	7,771,361	243,431	-	8,014,792
Total capital assets being depreciated	<u>17,401,148</u>	<u>480,648</u>	<u>(56,097)</u>	<u>17,825,699</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(1,550,613)	(141,047)	-	(1,691,660)
Capital improvements (other than buildings)	(139,096)	(14,899)	-	(153,995)
Machinery and equipment	(1,680,897)	(150,989)	80,000	(1,751,886)
Vehicles	(804,478)	(58,625)	59,587	(803,516)
Library books	(140,298)	(22,553)	-	(162,851)
Software	(26,920)	(3,789)	-	(30,709)
Infrastructure	(2,403,942)	(151,110)	-	(2,555,052)
Total accumulated depreciation	<u>(6,746,244)</u>	<u>(543,012)</u>	<u>139,587</u>	<u>(7,149,669)</u>
Total capital assets being depreciated, net	<u>10,654,904</u>	<u>(62,364)</u>	<u>83,490</u>	<u>10,676,030</u>
Total governmental activities capital assets, net	<u>\$ 13,752,494</u>	<u>\$ 275,728</u>	<u>\$ -</u>	<u>\$ 14,028,222</u>

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

<b>Business-Type Activities:</b>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land	\$ 210,557	\$ 51,700	\$ -	\$ 262,257
Construction in progress	66,423	822,564		888,987
Total capital assets not being depreciated	276,980	874,264	-	1,151,244
<u>Capital assets being depreciated:</u>				
Buildings and improvements	294,949	-	-	294,949
Capital improvements (other than buildings)	590,236		-	590,236
Machinery and equipment	230,012			230,012
Vehicles	102,794			102,794
Infrastructure	1,263,378	-	-	1,263,378
Total capital assets being depreciated	2,481,369	-	-	2,481,369
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(135,073)	(6,231)	-	(141,304)
Capital improvements (other than buildings)	(203,294)	(11,716)	-	(215,010)
Machinery and equipment	(78,595)	(21,685)		(100,280)
Vehicles	(61,293)	(12,318)		(73,611)
Infrastructure	(456,374)	(24,692)	-	(481,066)
Total accumulated depreciation	(934,629)	(76,642)	-	(1,011,271)
Total capital assets being depreciated, net	1,546,740	(76,642)	-	1,470,098
Total business-type activities capital assets, net	\$ 1,823,720	\$ 797,622	\$ -	\$ 2,621,342

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

<b>Governmental Activities:</b>	
General government	\$ 68,472
Public safety	78,375
Public works	373,612
Culture & Recreation	<u>22,553</u>
Total depreciation expense - governmental activities	<u>\$ 543,012</u>

<b>Business-Type Activity:</b>	
Water	<u>\$ 76,642</u>
Total depreciation expense - business-type activity	<u>\$ 76,642</u>

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 6 – CAPITAL LEASE**

The Town has entered into a lease agreement as lessee for financing the acquisition of a fire pumper truck with a down payment of \$40,476. The lease agreement qualifies as capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	Governmental Activities
Asset:	
Vehicles	\$ 246,645
Less: Accumulated depreciation	(73,993)
	\$ 172,652

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2006, are as follows:

Year Ending June 30		Governmental Activities
	2007	\$ 40,476
	2008	40,476
Total minimum lease payments		80,952
Less: amount representing interest		(5,573)
Present value of minimum lease payments		\$ 75,379

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**NOTE 7 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2006, are summarized as follows:

<u>Operating Transfers Out:</u>	<u>Operating Transfers In:</u>			
	General Fund	Stabilization Funds	Water Enterprise Fund	Total
General Fund	\$ -	\$ 200,000	\$ 59,910	259,910 (3)
Nonmajor Governmental Funds	191,982	-	-	191,982 (1)
Nonmajor Governmental Funds	<u>22,841</u>	<u>-</u>	<u>-</u>	<u>22,841 (2)</u>
Total	<u>\$ 214,823</u>	<u>\$ 200,000</u>	<u>\$ 59,910</u>	<u>\$ 474,733</u>

- (1) Represents budgeted transfer to supplement the operating budget.
- (2) Represents other transfers from the various non-major governmental funds.
- (3) Represents budgeted transfers to the Stabilization and Water Enterprise funds.

**NOTE 8 – SHORT-TERM FINANCING**

Under state law, and with the appropriate authorization, the Town is authorized to borrow funds on a temporary basis as follows:

- To fund current operations prior to the collection of revenues by issuing revenue anticipation notes (RANS).
- To fund grants prior to reimbursement by issuing grant anticipation notes (GANS).
- To fund Capital project costs incurred prior to selling permanent debt by issuing bond anticipation notes (BANS).
- To fund current project costs and other approved expenditures incurred, that are anticipated to be reimbursed by the Commonwealth, through the issuance of State Aid anticipation notes (SANS).

Short-term loans are general obligations of the Town and maturity dates are governed by statute. Interest expenditures for short-term borrowings are accounted for in the general fund.

The Town did not have any short-term debt outstanding as of June 30, 2006.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 9 – LONG-TERM DEBT**

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's Emergency Finance Board. Additionally, there are many categories of general long-term debt which are exempt from the debt limit but are subject to other limitations.

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

**Bonds and Notes Payable Schedule - Governmental Funds**

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
General Obligation	6.99	\$ 35,000	\$ -	\$ 35,000	\$ -
Title V	var.	163,340	-	10,906	152,434
Memorial Hall Remodeling	4.92	1,355,000	-	105,000	1,250,000
Land Acquisition	4.91	130,000	-	10,000	120,000
Public Building	4.22	790,000	-	50,000	740,000
Land Acquisition	4.21	470,000	-	30,000	440,000
Land Acquisition	4.02	135,000	-	10,000	125,000
Landfill Closure	4.37	1,235,000	-	65,000	1,170,000
Landfill Closure	4.41	560,000	-	25,000	535,000
Title V	var.	130,543	-	7,265	123,278
<b>Total</b>		<b>\$ 5,003,883</b>	<b>\$ -</b>	<b>\$ 348,171</b>	<b>\$ 4,655,712</b>

The annual debt service requirements for principal and interest for Governmental bonds and notes outstanding at June 30, 2006 are as follows:

Fiscal Year	Principal	Interest	Total
2007	\$ 313,171	\$ 211,787	\$ 524,958
2008	313,171	198,391	511,562
2009	313,171	184,983	498,154
2010	313,171	171,503	484,674
2011	313,244	157,917	471,161
2012-2016	1,555,704	575,407	2,131,111
2017-2021	1,159,282	228,409	1,387,691
2022-2024	374,798	32,410	407,208
<b>Total</b>	<b>\$ 4,655,712</b>	<b>\$ 1,760,806</b>	<b>\$ 6,416,518</b>

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Bonds and Notes Payable Schedule - Water Enterprise Fund**

Project	Interest Rate %	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
Water Mains	4.90	\$ 430,000	\$ -	\$ 40,000	\$ 390,000
Water Pumping Station	2.00	-	695,639	-	695,639
Total		<u>\$ 430,000</u>	<u>\$ 695,639</u>	<u>\$ 40,000</u>	<u>\$ 1,085,639</u>

The annual debt service requirements for principal and interest for water enterprise fund bonds and notes outstanding at June 30, 2006 are as follows:

Fiscal Year	Principal	Interest	Total
2007	\$ 65,821	\$ 34,563	\$ 100,384
2008	64,270	29,351	93,621
2009	64,861	27,115	91,976
2010	65,465	24,867	90,332
2011	66,080	22,589	88,669
2012-2016	320,077	79,672	399,749
2017-2021	237,439	32,108	269,547
2022-2026	201,626	10,243	211,869
Total	<u>\$ 1,085,639</u>	<u>\$ 260,508</u>	<u>\$ 1,346,147</u>

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Loans Authorized and Unissued**

As of June 30, 2006, the Town has loans authorized and unissued as follows:

<u>Description</u>	<u>Date Authorized</u>	<u>Amount</u>
Recycling Upgrade	5/2/2000	\$ 150,000
Title V - Septic	5/14/2004	200,000
East Side Improvements - Water	5/14/2004	735,361
Fire Truck	11/29/2005	350,000
Additional East Side Improvements - Water	5/2/2006	<u>300,000</u>
 Total		 <u>\$ 1,735,361</u>

**Changes in Long-term Liabilities**

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

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and notes payable	\$ 5,003,883	\$ -	\$ (348,171)	\$ 4,655,712	\$ 313,171
Landfill closure and postclosure care costs	828,120	-	(83,420)	744,700	47,666
Capital lease payable	<u>110,454</u>	<u>-</u>	<u>(35,075)</u>	<u>75,379</u>	<u>36,790</u>
 Total governmental activities long-term liabilities	 <u>\$ 5,942,457</u>	 <u>\$ -</u>	 <u>\$ (466,666)</u>	 <u>\$ 5,475,791</u>	 <u>\$ 397,627</u>
 <u>Business-Type Activities:</u>	 <u>Beginning Balance</u>	 <u>Additions</u>	 <u>Reductions</u>	 <u>Ending Balance</u>	 <u>Current Portion</u>
Bonds and notes payable	\$ 430,000	\$ 695,639	\$ (40,000)	\$ 1,085,639	\$ 65,821
 Total business-type activities long-term liabilities	 <u>\$ 430,000</u>	 <u>\$ 695,639</u>	 <u>\$ (40,000)</u>	 <u>\$ 1,085,639</u>	 <u>\$ 65,821</u>

The governmental activities long-term liabilities are generally liquidated by the general fund.

**TOWN OF TOWNSEND, MASSACHUSETTS  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**Overlapping Debt**

The Town pays assessments under formulas which include debt service payments to other governmental agencies providing services to the Town, (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of such governmental agencies and the estimated share being financed by the Town as of June 30, 2006:

<u>Agency</u>	<u>Total Long- Term Debt Outstanding</u>	<u>Town's Estimated Share</u>	<u>Town's Indirect Debt</u>
North Middlesex Regional School District	\$ 13,330,000	43.00%	\$ 5,731,900
Nashoba Valley Technical High School			
Bonds	7,080,000	18.06%	1,278,648
Bond Anticipation Notes (BANS)	<u>4,710,000</u>	18.06%	<u>850,626</u>
	<u>\$ 25,120,000</u>		<u>\$ 7,861,174</u>

**NOTE 10 – STABILIZATION FUND**

At June 30, 2006, \$917,255 has been set aside in the stabilization fund, which is classified as a major fund in the governmental funds financial statements. The stabilization fund balance can be used for general and/or capital purposes as approved by Town Meeting vote.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 11 – RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$50,000 per incident.

The Town is insured for general liability; however, Chapter 258 of the Massachusetts General Laws limits the Town's liability to a maximum of \$100,000 per claim in all matters except in actions relating to federal civil rights, eminent domain and breach of contract. Such claims are charged to the general fund. There were no such claims in 2006.

The Town purchases workers' compensation for uniformed police and fire personnel, which has a limit of \$6,000 per injury. Workers' compensation paid to uniformed police and fire personnel was not material in fiscal year 2006.

The Town has two contributory health care options for its employees. There are 57 active employees who participate in the Town's health care programs. The Town contributes 85% of the premium costs for all health plans selected by the active employees.

**NOTE 12 – PENSION PLANS**

*A. Plan Descriptions*

The Town contributes to the Middlesex Retirement System (the "System"), a cost sharing, multiple-employer, defined benefit pension plan administered by the Middlesex Retirement Board. Substantially all employees are members of the "System" except for public school teachers and certain school administrators who are members of the Massachusetts Teachers' Retirement System (MTRS) to which the Town does not contribute.

The "System" and the MTRS are contributory defined benefit plans and membership in both the "System" and the MTRS is mandatory upon commencement of employment for all permanent, full-time employees. The "System" and the MTRS provide retirement, disability and death benefits to plan members and beneficiaries.

Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The "System" issues a publicly available financial report, which can be obtained through the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission ("PERAC"), One Ashburton Place, Boston, Massachusetts 02108.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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*B. Funding Policies*

Middlesex Retirement System

Plan members are required to contribute to the “System” at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the “System”, its share of the remaining system-wide, actuarially determined, contribution plus administration costs, which are apportioned among the employers, based on active covered payroll. The Commonwealth of Massachusetts reimburses the “System” for a portion of the benefit payments for the cost of living increases. The contributions to the “System” for years ended June 30, 2006, 2005, and 2004 were \$326,993, \$274,742, and \$244,974, respectively, which were equal to its required contributions for each of these years.

Massachusetts Teachers’ Retirement System

Plan members (at varying rates of annual covered compensation) and the Commonwealth of Massachusetts fund contributions to the MTRS. The Commonwealth of Massachusetts contributed “on-behalf” payments to the MTRS totaling \$16,719 for fiscal year 2006. In accordance with GASB Statement No. 24, these on-behalf” payments have been recorded in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

The Town participates in a number of federal award programs. However the Town is not subject to the provisions of the Single Audit Act Amendments of 1996, since the Town did not expend more than \$500,000 of federal awards during the period ended June 30, 2006. These programs may still be subject to financial and compliance audits. Accordingly, the amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is believed the amount, if any, would not be material.

The Town’s estimated liability for post-closure care costs for the landfill is \$744,700 as of June 30, 2006. The Town is responsible for post-closure monitoring of the site for thirty years (twenty-eight years remaining) and the estimated liability has been recorded in the Statement of Net Assets, Governmental Activities. The \$744,700 reported as landfill post-closure liability at June 30, 2006 is based on what it would cost to perform all post-closure care at June 30, 2006. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2006, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2006.

**TOWN OF TOWNSEND, MASSACHUSETTS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2006, the following GASB pronouncements were implemented:

GASB issued Statement #42, *Accounting and Financial Reporting for Implementation of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. This pronouncement did not impact the basic financial statements.

GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. This pronouncement did not impact the basic financial statements.

GASB issued Statement #46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government-such as citizens, public interest groups, or the judiciary-can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This pronouncement did not impact the basic financial statements.

The GASB issued Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* which is required to be implemented in FY2008. Management has elected to implement this GASB early. This pronouncement did not impact the basic financial statements.

*Other Future GASB Pronouncements:*

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2008. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.