

**TOWN OF NORFOLK, MASSACHUSETTS**

**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



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# *Independent Auditors' Report*



*Certified Public Accountants*

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## **Independent Auditors' Report**

To the Honorable Board of Selectmen  
Town of Norfolk, 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 Norfolk, Massachusetts, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Town of Norfolk, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Norfolk, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 Norfolk, Massachusetts, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 26, 2007 on our consideration of the Town of Norfolk, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 12), 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 supplementary information. However, we did not audit the information and express no opinion on it.

*Sullivan, T. & Co., LLC*

April 26, 2007

# *Management's Discussion and Analysis*



As management of the Town of Norfolk, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2006.

### *Financial Highlights*

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$49,364,817 (net assets). Of this amount, \$4,728,952 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$833,087.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$5,957,607, an increase of \$133,977 in comparison with the prior year. Approximately \$5,432,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$739,415, or 2.8 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$1,348,567 during the fiscal year; \$107,150 of new debt was issued.

### *Overview of the Basic Financial Statements*

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following 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 non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 15-17 of this report.

### 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 can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 136 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), community preservation (special revenue), underground utilities (capital project), and library expansion (capital project) funds, each of which are considered to be major funds. Data from the other 131 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2006 budget.

The basic governmental fund financial statements can be found on pages 18-24 of this report.

### **Proprietary funds**

The Town maintains one type of proprietary fund.

The *enterprise fund* is used to report the same function presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water operations, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

### **Fiduciary funds**

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

Private-purpose trust funds and agency funds are 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.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

**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. The notes to the financial statements can be found on pages 30-51 of this report.

**Government-Wide Financial Analysis**

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The Town’s assets exceeded liabilities by \$49,364,817 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets.....	\$ 8,167,728	\$ 8,803,966	\$ 1,911,671	\$ 1,763,795	\$ 10,079,399	\$ 10,567,761
Noncurrent assets (excluding capital assets).....	3,420,000	3,842,983	243,829	245,127	3,663,829	4,088,110
Capital assets (net).....	<u>34,515,287</u>	<u>34,259,757</u>	<u>16,200,895</u>	<u>16,451,593</u>	<u>50,716,182</u>	<u>50,711,350</u>
Total assets.....	<u>46,103,015</u>	<u>46,906,706</u>	<u>18,356,395</u>	<u>18,460,515</u>	<u>64,459,410</u>	<u>65,367,221</u>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	1,730,729	1,808,600	122,719	143,040	1,853,448	1,951,640
Noncurrent liabilities (excluding debt).....	255,655	526,353	-	-	255,655	526,353
Current debt.....	1,222,574	1,270,880	377,252	375,717	1,599,826	1,646,597
Noncurrent debt.....	<u>7,383,005</u>	<u>8,330,990</u>	<u>4,002,659</u>	<u>4,379,911</u>	<u>11,385,664</u>	<u>12,710,901</u>
Total liabilities.....	<u>10,591,963</u>	<u>11,936,823</u>	<u>4,502,630</u>	<u>4,898,668</u>	<u>15,094,593</u>	<u>16,835,491</u>
<b>Net Assets</b>						
Invested in capital assets (net of related debt).....	29,908,458	28,882,087	11,820,984	11,695,965	41,729,442	40,578,052
Restricted.....	2,906,423	2,806,798	-	-	2,906,423	2,806,798
Unrestricted.....	<u>2,696,171</u>	<u>3,280,998</u>	<u>2,032,781</u>	<u>1,865,882</u>	<u>4,728,952</u>	<u>5,146,880</u>
Total net assets.....	<u>\$ 35,511,052</u>	<u>\$ 34,969,883</u>	<u>\$ 13,853,765</u>	<u>\$ 13,561,847</u>	<u>\$ 49,364,817</u>	<u>\$ 48,531,730</u>

The largest portion of the Town’s net assets (84.5%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (5.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (9.6% or \$4,728,952) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$2,696,171 may be used to support governmental activities and \$2,032,781 may be used to support business-type activities.

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

### Changes in Net Assets

For the fiscal year ended June 30, 2006, the Town's total net assets increased by \$833,087 compared to an increase of \$1,325,602 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 2,954,464	\$ 2,534,611	\$ 1,465,726	\$ 1,329,252	\$ 4,420,190	\$ 3,863,863
Operating grants and contributions.....	5,124,858	5,655,265	20,602	26,680	5,145,460	5,681,945
Capital grants and contributions.....	1,701,271	977,467	-	-	1,701,271	977,467
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	17,853,782	15,705,387	-	-	17,853,782	15,705,387
Motor vehicle and other excise taxes.....	1,381,356	1,383,716	-	-	1,381,356	1,383,716
Penalties and interest on taxes.....	50,955	56,206	-	-	50,955	56,206
Payments in lieu of taxes.....	9,357	16,583	-	-	9,357	16,583
Community preservation surcharges.....	408,205	330,426	-	-	408,205	330,426
Grants and contributions not restricted to specific programs.....	1,016,576	1,180,195	-	-	1,016,576	1,180,195
Unrestricted investment income.....	186,729	119,882	-	-	186,729	119,882
Total revenues.....	<u>30,687,553</u>	<u>27,959,738</u>	<u>1,486,328</u>	<u>1,355,932</u>	<u>32,173,881</u>	<u>29,315,670</u>
<b>Expenses</b>						
General government.....	2,324,071	1,936,827	-	-	2,324,071	1,936,827
Public safety.....	4,133,342	3,448,797	-	-	4,133,342	3,448,797
Education.....	18,205,070	16,651,999	-	-	18,205,070	16,651,999
Public works.....	3,261,743	3,075,066	-	-	3,261,743	3,075,066
Health and human services.....	539,176	538,854	-	-	539,176	538,854
Culture and recreation.....	1,292,092	980,032	-	-	1,292,092	980,032
Debt service - interest.....	390,890	369,249	-	-	390,890	369,249
Water.....	-	-	1,194,410	989,244	1,194,410	989,244
Total expenses.....	<u>30,146,384</u>	<u>27,000,824</u>	<u>1,194,410</u>	<u>989,244</u>	<u>31,340,794</u>	<u>27,990,068</u>
Change in net assets.....	541,169	958,914	291,918	366,688	833,087	1,325,602
Net assets - beginning of year.....	<u>34,969,883</u>	<u>34,010,969</u>	<u>13,561,847</u>	<u>13,195,159</u>	<u>48,531,730</u>	<u>47,206,128</u>
Net assets - end of year.....	<u>\$ 35,511,052</u>	<u>\$ 34,969,883</u>	<u>\$ 13,853,765</u>	<u>\$ 13,561,847</u>	<u>\$ 49,364,817</u>	<u>\$ 48,531,730</u>

Governmental activities increased the Town's net assets by \$541,169. In the prior year, governmental activities increased the Town's net assets by \$958,914. The key element of this change is an increase in the Town's compensated absences liability of approximately \$398,000.

Business-type activities increased the Town's net assets by \$291,918. In the prior year, business-type activities increased the Town's net assets by \$366,688.

### *Fund Financial Statement Analysis*

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

#### Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable 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, the governmental funds reported combined ending fund balances totaling \$5,957,607, an increase of \$133,977 in comparison with the prior year. Approximately 84.5% of this total amount (\$5,032,000) represents undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$262,772)
- Perpetual permanent funds (\$70,728)
- Other specific purposes (\$192,353)
- Fund a portion of the fiscal year 2007 budget (\$400,000)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$739,415, while total fund balance was \$1,402,187. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 2.8% of total general fund expenditures, while total fund balance represents 5.3% of that same amount.

The balance of the Town's general fund increased \$271,908 during fiscal year 2006. Although the Town recognized an approximate \$739,000 budgetary surplus (budget vs. actual activity), approximately \$579,000 of reserves was utilized for spending during fiscal year 2006. In addition, the net increase in the Town's 60 day accrual for real estate and personal property taxes was approximately \$112,000.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$11,949 during the current fiscal year. This is attributable to investment income earned in the fund.

The fund balance of the community preservation fund (special revenue) increased by \$151,751 during the current fiscal year. The fund earned surcharge and intergovernmental (state match) revenues of approximately \$406,000 and \$337,000, respectively. The fund recognized approximately \$591,000 of expenditures.

The fund balance of the underground utilities fund (capital project) increased by \$50,000 during the current fiscal year. This is attributable to a transfer in from the general fund.

The fund balance of the library expansion fund (capital project) decreased by \$212,635 during the current fiscal year. This is attributable to fiscal year 2006 expenditures on the project, which was funded by long-term debt in previous fiscal years.

Proprietary funds

The Town’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water enterprise fund at the end of the year amounted to \$2,032,781. The fund had an increase in net assets for the year of \$291,918. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town’s business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$26,309,150 was increased by \$150,502 (0.6%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Snow and ice deficit.....	\$ 84,586	Undesignated fund balance
Snow and ice deficit.....	32,500	Transfer from snow revolving fund
Assessors revaluation.....	25,000	Overlay surplus
Conservation commission agent.....	7,284	Intergovernmental revenues
Senior center construction.....	<u>1,132</u>	Transfer from senior center fund
Total increase.....	<u>\$ 150,502</u>	

During the year, general fund revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, resulting in an actual increase in fund balance that exceeded the final amended budget amount by \$739,000.

***Capital Asset and Debt Administration***

Capital assets

The Town’s investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$50,716,182 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. There was an increase in the investment in capital assets for governmental activities of approximately \$256,000 and a decrease for business-type activities of approximately \$251,000.

Major capital asset events that occurred during the current fiscal year include the following:

- Library construction (\$1,051,000)
- Infrastructure improvements - roads, sidewalks, underground utilities, etc. (\$605,000)
- Land purchase (\$445,000)
- Library furniture and equipment (\$121,000)
- Water system improvements (\$109,783)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Land.....	\$ 7,507,416	\$ 7,062,416	\$ 1,142,571	\$ 1,142,571	\$ 8,649,987	\$ 8,204,987
Construction in progress.....	-	-	803,532	693,749	803,532	693,749
Land improvements.....	1,118,950	1,140,796	-	-	1,118,950	1,140,796
Buildings and improvements.....	15,259,459	14,764,621	455,989	467,124	15,715,448	15,231,745
Machinery and equipment.....	1,625,870	1,746,670	412,381	489,801	2,038,251	2,236,471
Vehicles.....	336,432	414,599	22,388	31,753	358,820	446,352
Infrastructure.....	8,667,160	9,130,655	13,364,034	13,626,595	22,031,194	22,757,250
<b>Total capital assets.....</b>	<b>\$ 34,515,287</b>	<b>\$ 34,259,757</b>	<b>\$ 16,200,895</b>	<b>\$ 16,451,593</b>	<b>\$ 50,716,182</b>	<b>\$ 50,711,350</b>

Additional information on the Town's capital assets can be found in Note 5 on pages 43-44 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$12,824,161, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
General obligation bonds.....	\$ 8,276,000	\$ 9,356,000	\$ 3,894,000	\$ 4,248,000	\$ 12,170,000	\$ 13,604,000
MWPAT notes.....	168,250	61,100	485,911	507,628	654,161	568,728
<b>Total bonds and notes.....</b>	<b>\$ 8,444,250</b>	<b>\$ 9,417,100</b>	<b>\$ 4,379,911</b>	<b>\$ 4,755,628</b>	<b>\$ 12,824,161</b>	<b>\$ 14,172,728</b>

The Town's total bonded debt decreased by \$1,348,567 (9.5%) during the current fiscal year; \$107,150 of new debt was issued.

Additional information on the Town's long-term debt can be found in Note 8 on pages 46-49 of this report.

*Economic Factors and Next Year's Budget and Rates*

The development of the fiscal year 2007 general fund budget reflects an overall increase of approximately 5% over fiscal year 2006. Revenues from real estate and property taxes are expected to increase by \$1,050,272, or 5.76%, which includes an increase of \$238,000 in excluded debt levy and \$400,000 in new growth. Estimated local receipts of \$2,574,000 are consistent with fiscal year 2006. An overall increase in State Aid of \$265,000 is expected, largely due to an increase of \$200,000 for Lottery distribution and \$65,000 for State-owned Land. Chapter 70 revenue of \$3,313,000 is almost unchanged from fiscal year 2006. To supplement the fiscal year 2007 budget, the Town used \$400,000 of Free Cash, an increase of \$300,000 over fiscal year 2006.

Fiscal year 2007 budgeted appropriations provide for an increase of 5.38% as compared with fiscal year 2006. For non-contractual employees, the budget included cost of living increases and scheduled wage adjustments. For employees under contract, all contractual obligations are funded. Increased costs in benefits, health insurance, and retirement obligations are also provided.

The fiscal year 2007 budget provides for investment in the Town's assets and infrastructure. These include a range of items for the DPW, library, local schools, and other bodies. The Town voted to fund these items with \$198,780 from Prison Mitigation Funds provided by the State of Massachusetts. Traditionally, Prison Mitigation Funds have been used for special one-time needs such as capital items, as opposed to the operating budget. Additionally, the Town voted to acquire vehicles and heavy equipment for the DPW, police and fire departments, and the building department. The \$810,535 estimated cost will be funded by borrowing non-excluded debt.

The fiscal year 2007 budget process reflects the desired effect of producing a budget that did not call for an operating override under proposition 2½. A significant gap existed between projected revenues and the original budget requests from the Town and School Departments. The King Philip School District, the Norfolk Elementary Schools and Town Government each reduced their budget requests by approximately \$375,000. Free Cash was used to balance the budget, a practice that may not be sustainable in the future. Fixed costs, especially health insurance, and utility costs are items of concern.

Without any increases in State funding, any increase in Town revenues relies almost entirely on Property Tax revenues. Local non-tax receipts are expected to remain stable, and Free Cash is likely to be depleted. Additional Proposition 2 ½ Overrides may be requested in future years in order to maintain services.

The total fiscal year 2007 budget from all revenue sources is expected to be an increase of approximately 5% as compared to the fiscal year 2006 budget. The estimated increase in the average residential real estate property tax bill, excluding Community Preservation Act surcharge, is expected to be 4.4%.

### *Requests for Information*

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, One Liberty Lane, Norfolk, Massachusetts 02056.



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# *Basic Financial Statements*

## STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 3,135,331	\$ 1,578,391	\$ 4,713,722
Restricted cash and cash equivalents.....	2,552,008	-	2,552,008
Investments.....	678,229	-	678,229
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	286,681	-	286,681
Tax liens.....	38,259	-	38,259
Motor vehicle and other excise taxes.....	60,103	-	60,103
Community preservation surcharges.....	4,670	-	4,670
User charges.....	-	260,124	260,124
Special assessments.....	-	73,156	73,156
Intergovernmental.....	863,267	-	863,267
Tax foreclosures.....	549,180	-	549,180
Total current assets.....	8,167,728	1,911,671	10,079,399
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Special assessments.....	-	243,829	243,829
Intergovernmental.....	3,420,000	-	3,420,000
Capital assets not being depreciated.....	7,507,416	1,946,103	9,453,519
Capital assets, net of accumulated depreciation.....	27,007,871	14,254,792	41,262,663
Total noncurrent assets.....	37,935,287	16,444,724	54,380,011
Total assets.....	46,103,015	18,356,395	64,459,410
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable.....	384,230	41,539	425,769
Accrued payroll.....	93,459	2,649	96,108
Other liabilities.....	437,102	-	437,102
Accrued interest.....	139,938	78,531	218,469
Landfill closure.....	50,000	-	50,000
Compensated absences.....	626,000	-	626,000
Short-term notes payable.....	161,329	-	161,329
Long-term bonds and notes payable.....	1,061,245	377,252	1,438,497
Total current liabilities.....	2,953,303	499,971	3,453,274
Noncurrent liabilities:			
Landfill closure.....	72,655	-	72,655
Compensated absences.....	183,000	-	183,000
Long-term bonds and notes payable.....	7,383,005	4,002,659	11,385,664
Total noncurrent liabilities.....	7,638,660	4,002,659	11,641,319
Total liabilities.....	10,591,963	4,502,630	15,094,593
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	29,908,458	11,820,984	41,729,442
Restricted for:			
Community preservation.....	2,090,277	-	2,090,277
Permanent funds:			
Expendable.....	553,065	-	553,065
Nonexpendable.....	70,728	-	70,728
Other specific purposes.....	192,353	-	192,353
Unrestricted.....	2,696,171	2,032,781	4,728,952
Total net assets.....	\$ 35,511,052	\$ 13,853,765	\$ 49,364,817

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 2,324,071	\$ 455,184	\$ 87,977	\$ 476,897	\$ (1,304,013)
Public safety.....	4,133,342	549,183	304,078	-	(3,280,081)
Education.....	18,205,070	1,058,918	4,462,252	-	(12,683,900)
Public works.....	3,261,743	499,477	71,952	399,515	(2,290,799)
Health and human services.....	539,176	75,065	36,280	-	(427,831)
Culture and recreation.....	1,292,092	316,637	61,361	824,859	(89,235)
Debt service - interest.....	390,890	-	100,958	-	(289,932)
Total governmental activities.....	<u>30,146,384</u>	<u>2,954,464</u>	<u>5,124,858</u>	<u>1,701,271</u>	<u>(20,365,791)</u>
Business-type activities:					
Water.....	1,194,410	1,465,726	20,602	-	291,918
Total primary government.....	<u>\$ 31,340,794</u>	<u>\$ 4,420,190</u>	<u>\$ 5,145,460</u>	<u>\$ 1,701,271</u>	<u>\$ (20,073,873)</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES (Continued)**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net assets:</b>			
Net (expense)/revenue (from previous page).....	\$ (20,365,791)	\$ 291,918	\$ (20,073,873)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens.....	17,853,782	-	17,853,782
Motor vehicle and other excise taxes.....	1,381,356	-	1,381,356
Penalties and interest on taxes.....	50,955	-	50,955
Payments in lieu of taxes.....	9,357	-	9,357
Community preservation surcharges.....	408,205	-	408,205
Grants and contributions not restricted to specific programs.....	1,016,576	-	1,016,576
Unrestricted investment income.....	186,729	-	186,729
Total general revenues.....	20,906,960	-	20,906,960
Change in net assets.....	541,169	291,918	833,087
Net assets - beginning of year.....	34,969,883	13,561,847	48,531,730
Net assets - end of year.....	\$ 35,511,052	\$ 13,853,765	\$ 49,364,817

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2006

<b>ASSETS</b>	<u>General</u>	<u>Stabilization</u>	<u>Community Preservation</u>
Cash and cash equivalents.....	\$ 2,066,852	\$ 217,624	\$ -
Investments.....	-	267,731	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	286,681	-	-
Tax liens.....	38,166	-	93
Motor vehicle and other excise taxes.....	60,103	-	-
Community preservation surcharges.....	-	-	4,670
Intergovernmental.....	3,830,500	-	-
Tax foreclosures.....	549,180	-	-
Restricted assets:			
Cash and cash equivalents.....	<u>-</u>	<u>-</u>	<u>2,085,514</u>
<b>TOTAL ASSETS.....</b>	<b><u>\$ 6,831,482</u></b>	<b><u>\$ 485,355</u></b>	<b><u>\$ 2,090,277</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 354,377	\$ -	\$ -
Accrued payroll.....	88,578	-	-
Other liabilities.....	437,102	-	-
Deferred revenue.....	4,549,238	-	4,763
Short-term notes payable.....	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>5,429,295</u></b>	<b><u>-</u></b>	<b><u>4,763</u></b>
 <b>FUND BALANCES:</b>			
Reserved for:			
Encumbrances and continuing appropriations.....	262,772	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	400,000	-	-
Undesignated, reported in:			
General fund.....	739,415	-	-
Special revenue funds.....	-	485,355	2,085,514
Capital projects funds.....	-	-	-
Permanent funds.....	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES.....</b>	<b><u>1,402,187</u></b>	<b><u>485,355</u></b>	<b><u>2,085,514</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b><u>\$ 6,831,482</u></b>	<b><u>\$ 485,355</u></b>	<b><u>\$ 2,090,277</u></b>

See notes to basic financial statements.

<u>Underground Utilities</u>	<u>Library Expansion</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 850,855	\$ 3,135,331
-	-	410,498	678,229
-	-	-	286,681
-	-	-	38,259
-	-	-	60,103
-	-	-	4,670
-	-	452,767	4,283,267
-	-	-	549,180
291,019	10,569	164,906	2,552,008
\$ 291,019	\$ 10,569	\$ 1,879,026	\$ 11,587,728
\$ -	\$ -	\$ 29,853	\$ 384,230
-	-	4,881	93,459
-	-	-	437,102
-	-	-	4,554,001
161,329	-	-	161,329
161,329	-	34,734	5,630,121
-	-	-	262,772
-	-	70,728	70,728
-	-	192,353	192,353
-	-	-	400,000
-	-	-	739,415
-	-	859,996	3,430,865
129,690	10,569	168,150	308,409
-	-	553,065	553,065
129,690	10,569	1,844,292	5,957,607
\$ 291,019	\$ 10,569	\$ 1,879,026	\$ 11,587,728

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General	Stabilization	Community Preservation
<b>REVENUES</b>			
Real estate and personal property taxes.....	\$ 17,909,757	\$ -	\$ -
Motor vehicle and other excise taxes.....	1,431,202	-	-
Tax liens.....	3,164	-	40
Payments in lieu of taxes.....	9,357	-	-
Community preservation surcharges.....	-	-	405,999
Charges for services.....	-	-	-
Trash disposal.....	313,975	-	-
Intergovernmental .....	5,840,478	-	337,143
Penalties and interest on taxes.....	50,910	-	45
Licenses, permits and fees.....	492,837	-	-
Fines and forfeitures.....	35,907	-	-
Departmental.....	235,656	-	-
Contributions.....	-	-	-
Investment income.....	174,780	11,949	-
<b>TOTAL REVENUES.....</b>	<b>26,498,023</b>	<b>11,949</b>	<b>743,227</b>
<b>EXPENDITURES</b>			
Current:			
General government.....	1,441,560	-	591,476
Public safety.....	3,077,988	-	-
Education.....	14,400,841	-	-
Public works.....	1,948,616	-	-
Health and human services.....	236,082	-	-
Culture and recreation.....	575,132	-	-
Pension benefits.....	1,430,442	-	-
Employee benefits.....	1,261,122	-	-
Property and liability insurance.....	240,828	-	-
State and county charges.....	472,688	-	-
Debt service:			
Principal.....	1,080,000	-	-
Interest.....	384,523	-	-
<b>TOTAL EXPENDITURES.....</b>	<b>26,549,822</b>	<b>-</b>	<b>591,476</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(51,799)</b>	<b>11,949</b>	<b>151,751</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in.....	373,707	-	-
Proceeds of bonds and notes.....	-	-	-
Transfers out.....	(50,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>323,707</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>271,908</b>	<b>11,949</b>	<b>151,751</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>1,130,279</b>	<b>473,406</b>	<b>1,933,763</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,402,187</b>	<b>\$ 485,355</b>	<b>\$ 2,085,514</b>

See notes to basic financial statements.



	Underground Utilities	Library Expansion	Nonmajor Governmental Funds	Total Governmental Funds
\$	-	\$ -	\$ -	\$ 17,909,757
	-	-	-	1,431,202
	-	-	-	3,204
	-	-	-	9,357
	-	-	-	405,999
	-	-	1,205,513	1,205,513
	-	-	-	313,975
	-	-	1,831,566	8,009,187
	-	-	-	50,955
	-	-	572,391	1,065,228
	-	-	2,836	38,743
	-	-	145,801	381,457
	-	-	135,246	135,246
	-	-	41,520	228,249
	-	-	3,934,873	31,188,072
	-	-	318,226	2,351,262
	-	-	104,786	3,182,774
	-	-	1,391,633	15,792,474
	-	-	582,573	2,531,189
	-	-	7,182	243,264
	-	212,635	1,402,912	2,190,679
	-	-	-	1,430,442
	-	-	-	1,261,122
	-	-	-	240,828
	-	-	-	472,688
	-	-	-	1,080,000
	-	-	-	384,523
	-	212,635	3,807,312	31,161,245
	-	(212,635)	127,561	26,827
	50,000	-	-	423,707
	-	-	107,150	107,150
	-	-	(373,707)	(423,707)
	50,000	-	(266,557)	107,150
	50,000	(212,635)	(138,996)	133,977
	79,690	223,204	1,983,288	5,823,630
\$	<u>129,690</u>	<u>10,569</u>	<u>1,844,292</u>	<u>5,957,607</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances (page 19).....	\$	5,957,607
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		34,515,287
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		4,554,001
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(139,938)
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.....		(8,444,250)
Landfill closure.....		(122,655)
Compensated absences.....		(809,000)
Net assets of governmental activities (page 15).....	\$	<u>35,511,052</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 21).....	\$	133,977
<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. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		2,481,159
Depreciation.....		(2,225,629)
<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>		
		(500,519)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact 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. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(107,150)
Bond maturities.....		1,080,000
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		(6,367)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Landfill closure.....		83,698
Compensated absences.....		(398,000)
Changes in net assets of governmental activities (page 17).....	\$	<u>541,169</u>

See notes to basic financial statements.

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ 17,779,343	\$ 17,779,343	\$ 17,797,972	\$ 18,629
Motor vehicle and other excise taxes.....	1,325,000	1,325,000	1,431,202	106,202
Tax liens.....	-	-	3,164	3,164
Payments in lieu of taxes.....	17,000	17,000	9,357	(7,643)
Trash disposal.....	333,904	333,904	313,975	(19,929)
Intergovernmental .....	5,181,036	5,188,320	5,197,662	9,342
Penalties and interest on taxes.....	60,000	60,000	50,910	(9,090)
Licenses, permits and fees.....	508,000	508,000	492,837	(15,163)
Fines and forfeitures.....	25,000	25,000	35,907	10,907
Departmental.....	170,121	170,121	235,656	65,535
Investment income.....	100,000	100,000	174,780	74,780
<b>TOTAL REVENUES.....</b>	<b>25,499,404</b>	<b>25,506,688</b>	<b>25,743,422</b>	<b>236,734</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	1,548,313	1,549,666	1,441,560	108,106
Public safety.....	3,127,868	3,175,377	3,077,988	97,389
Education.....	14,539,335	14,539,335	14,400,841	138,494
Public works.....	1,947,359	2,065,155	1,948,616	116,539
Health and human services.....	260,627	262,657	236,082	26,575
Culture and recreation.....	583,733	590,547	575,132	15,415
Pension benefits.....	812,051	812,051	787,626	24,425
Employee benefits.....	1,255,874	1,250,874	1,261,122	(10,248)
Property and liability insurance.....	277,571	257,571	240,828	16,743
State and county charges.....	430,476	430,476	472,688	(42,212)
Debt service:				
Principal.....	1,080,000	1,080,000	1,080,000	-
Interest.....	395,943	395,943	384,523	11,420
<b>TOTAL EXPENDITURES.....</b>	<b>26,259,150</b>	<b>26,409,652</b>	<b>25,907,006</b>	<b>502,646</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>				
	<b>(759,746)</b>	<b>(902,964)</b>	<b>(163,584)</b>	<b>739,380</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	340,075	373,707	373,707	-
Transfers out.....	(50,000)	(50,000)	(50,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>290,075</b>	<b>323,707</b>	<b>323,707</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(469,671)</b>	<b>(579,257)</b>	<b>160,123</b>	<b>739,380</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>1,026,673</b>	<b>1,026,673</b>	<b>1,026,673</b>	<b>-</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ 557,002</b>	<b>\$ 447,416</b>	<b>\$ 1,186,796</b>	<b>\$ 739,380</b>

See notes to basic financial statements.

**PROPRIETARY FUND**  
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities - Enterprise Fund
<b>ASSETS</b>	<u>Water</u>
Current assets:	
Cash and cash equivalents.....	\$ 1,578,391
Receivables, net of allowance for uncollectible amounts:	
User charges.....	260,124
Special assessments.....	<u>73,156</u>
Total current assets.....	<u>1,911,671</u>
Noncurrent assets:	
Receivables, net of allowance for uncollectible amounts:	
Special assessments.....	243,829
Capital assets not being depreciated.....	1,946,103
Capital assets, net of accumulated depreciation.....	<u>14,254,792</u>
Total noncurrent assets.....	<u>16,444,724</u>
Total assets.....	<u>18,356,395</u>
<b>LIABILITIES</b>	
Current liabilities:	
Warrants payable.....	41,539
Accrued payroll.....	2,649
Accrued interest.....	78,531
Long-term bonds and notes payable.....	<u>377,252</u>
Total current liabilities.....	<u>499,971</u>
Noncurrent liabilities:	
Long-term bonds and notes payable.....	<u>4,002,659</u>
Total liabilities.....	<u>4,502,630</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt.....	11,820,984
Unrestricted.....	<u>2,032,781</u>
Total net assets.....	<u>\$ 13,853,765</u>

See notes to basic financial statements.

**PROPRIETARY FUND**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Enterprise Fund
	Water
<b>OPERATING REVENUES</b>	
Charges for services.....	\$ 1,353,067
Utility liens.....	66,680
Special assessments.....	29,084
Penalties and interest.....	16,895
TOTAL OPERATING REVENUES.....	1,465,726
<b>OPERATING EXPENSES</b>	
Cost of service and administration.....	666,687
Depreciation.....	360,481
TOTAL OPERATING EXPENSES.....	1,027,168
OPERATING INCOME (LOSS).....	438,558
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income.....	20,602
Interest expense.....	(167,242)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(146,640)
CHANGE IN NET ASSETS.....	291,918
NET ASSETS AT BEGINNING OF YEAR.....	13,561,847
NET ASSETS AT END OF YEAR.....	\$ 13,853,765

See notes to basic financial statements.

**PROPRIETARY FUND**  
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund
	Water
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users.....	\$ 1,357,553
Payments to vendors.....	(574,509)
Payments to employees.....	(119,733)
	663,311
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	
	<b>663,311</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets.....	(109,783)
Principal payments on bonds and notes.....	(375,717)
Interest expense.....	(160,008)
	(645,508)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	
	<b>(645,508)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income.....	20,602
	20,602
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	
	<b>38,405</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....</b>	
	<b>1,539,986</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR.....</b>	
	<b>\$ 1,578,391</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>	
Operating income (loss).....	\$ 438,558
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation.....	360,481
Changes in assets and liabilities:	
User charges.....	(107,399)
Special assessments.....	(774)
Warrants payable.....	(29,059)
Accrued payroll.....	1,504
Total adjustments.....	224,753
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	
	<b>\$ 663,311</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	
Intergovernmental debt subsidies (MWPAT).....	\$ 20,494
	<b>20,494</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

<b>ASSETS</b>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 17,266	\$ 604,526
 <b>LIABILITIES</b>		
Warrants payable.....	-	1,180
Liabilities due depositors.....	-	603,346
Total liabilities.....	-	604,526
 <b>NET ASSETS</b>		
Held in trust for other purposes.....	\$ 17,266	\$ -

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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		<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>		
Net investment income:		
Interest.....	\$	706
NET ASSETS AT BEGINNING OF YEAR.....		16,560
NET ASSETS AT END OF YEAR.....	\$	17,266

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. General**

The basic financial statements 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 standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**B. Reporting Entity**

The Town of Norfolk, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, account groups, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

**Joint Ventures**

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

*The King Philip Regional High School*

The King Philip Regional High School is governed by a nine member school committee consisting of three elected representatives from the Town. The Town is indirectly liable for the King Philip Regional High School debt and other expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2006, the Town's assessment was \$4,882,304. Separate financial statements may be obtained by writing to the Treasurer of the King Philip Regional High School at 201 Franklin Street, Wrentham, MA 02093.

*Tri-County Regional Vocational School*

The Tri-County Regional Vocational School is governed by a fourteen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the Tri-County Regional Vocational School debt and other expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2006, the Town's assessment was \$283,981. Separate financial statements may be obtained by writing to the Treasurer of the Tri-County Regional Vocational School at 147 Pond Street, Franklin, MA 02038.

### C. *Government-Wide and Fund Financial Statements*

#### Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement of activities) report information on all 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 primarily supported by user fees.

#### 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. Fiduciary funds are reported by fund type.

### D. *Measurement Focus, Basis of Accounting and Basis of Presentation*

#### Government-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### 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 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:

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

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

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

### Fund Financial Statements

**Governmental funds** financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., 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 unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those 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 capital reserves. Use of this fund is subject to Town Meeting approval.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *underground utilities fund* is a capital projects fund used to account for financial resources to upgrade the Town's electrical, cable and communications systems.

The *library expansion fund* is a capital projects fund used to account for financial resources to expand the Town's library.

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 capital projects funds or permanent 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 funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the governmental programs.

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

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

The following major proprietary fund is reported:

The *water enterprise fund* is used to account for the Town's water activities.

**Fiduciary funds** 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 in a trustee capacity for others that cannot be used to support the government's 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, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist primarily of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

#### ***E. Cash and Cash Equivalents***

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

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

#### ***F. Accounts Receivable***

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

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

#### **Real Estate Taxes, Personal Property Taxes and Tax Liens**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed approximately six months after the close of the valuation year on delinquent properties. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

**Motor Vehicle and Other Excise Taxes**

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 to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

**Community Preservation Surcharges**

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

**User Charges**

Water user charges are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Utility liens are processed approximately six months after the end of the fiscal year and are included as a lien on the property owner's tax bill. Water charges and liens are recorded as receivables in the fiscal year of the levy.

**Special Assessments**

Special assessments consist of water system betterments and are recorded as receivables in the fiscal year accrued.

**Intergovernmental**

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

***G. Allowance for Uncollectible Accounts***

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes

The allowances for uncollectible accounts are not material in total to the basic financial statements and therefore are not reported.

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

- Real estate taxes and tax liens
- Community preservation surcharges
- User charges
- Special assessments

Intergovernmental receivables are considered 100% collectible.

**H. Inventories**

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements and therefore are not reported.

**I. Restricted Assets**

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**J. Capital Assets**

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction-in-progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide 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 capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	30
Buildings and improvements.....	20 - 50
Machinery and equipment.....	5 - 25
Vehicles.....	5 - 6
Infrastructure.....	20 - 100

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 acquiring fund in the fiscal year of the purchase.

**K. *Interfund Receivables and Payables***

During the course of its operations, transactions occur between and within 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.

**L. *Interfund Transfers***

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

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

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

**M. *Deferred Revenue***

Deferred revenue at the 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 financial statements (full accrual).

**N. *Net Assets and Fund Equity***Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Community preservation" represents amounts restricted for the purpose of acquiring land for conservation, recreational, and affordable housing purposes.

"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.

#### Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance 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” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2007 operating budget.

#### ***O. Long-term Debt***

##### Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line 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 when the debt is issued. 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.

#### ***P. 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 Law (MGL).

Investment income from proprietary funds is retained in the fund.

#### ***Q. Compensated Absences***

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

**R. Post Retirement Benefits**Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 58% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2006, this expenditure totaled approximately \$204,000. There were approximately 68 participants eligible to receive benefits at June 30, 2006.

**S. Use of Estimates**Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****A. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority approval via Special Town Meeting and are included in the final budget.

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.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget for the general fund authorized \$26,309,150 in appropriations, prior year encumbrances and other amounts to be raised. During fiscal year 2006, supplemental appropriations totaling \$150,502 were authorized.

The Accountant’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

**B. Reconciliation of Budgetary and GAAP Results**

For budgetary financial reporting purposes, the Uniform Massachusetts 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:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 25,743,422	\$ 25,907,006
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	111,785	-
To record activity for MTRS on-behalf payments.....	<u>642,816</u>	<u>642,816</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 26,498,023</u>	<u>\$ 26,549,822</u>

**C. Fund Deficits**

At June 30, 2006, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Highway improvement.....	\$ 77,828	State grants
Snow removal revolving.....	1,230	Available funds

**D. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations for employee benefits and state and county charges. These over-expenditures will be funded by taxes during fiscal year 2007.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer’s investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of permanent funds and private purpose trust funds are held separately from other Town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town’s deposits may not be recovered. The Town’s policy is to rely on FDIC and DIF insurance coverage. As of June 30, 2006, \$4,787,778 of the Town’s bank balance of \$6,374,343 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The Town’s investments at June 30, 2006 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 411,374	\$ 239,801	\$ 121,631	\$ 49,942	\$ -
U.S. Agencies.....	392,488	-	215,857	25,300	151,331
Money market mutual funds.....	264,019	264,019	-	-	-
Total debt securities.....	1,067,881	\$ 503,820	\$ 337,488	\$ 75,242	\$ 151,331
<u>Other Investments:</u>					
External investment pools.....	1,459,611				
Total investments.....	\$ 2,527,492				

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2006, \$942,248 of the Town's investments of \$2,527,492 was uninsured, not registered in the name of the Town and exposed to custodial credit risk as follows:

Investment Type	Fair Value	Held by Counterparty's Trust or Agent
U.S. Treasuries.....	\$ 285,741	\$ 285,741
U.S. Agencies.....	392,488	392,488
Money market mutual funds.....	264,019	264,019
Total.....	\$ 942,248	\$ 942,248

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2006, the credit quality ratings of the Town's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *
Money market mutual funds.....	\$ 264,019	AAA

\* Per the rating scale of Standard and Poor's (a national credit rating organization)

**NOTE 4 - ACCOUNTS RECEIVABLE**

At June 30, 2006, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 286,681	\$ -	\$ 286,681
Tax liens.....	38,259	-	38,259
Motor vehicle and other excise taxes.....	60,103	-	60,103
Community preservation surcharges.....	4,670	-	4,670
Intergovernmental.....	4,283,267	-	4,283,267
	\$ 4,672,980	\$ -	\$ 4,672,980

At June 30, 2006, receivables for the water enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 260,124	\$ -	\$ 260,124
Special assessments.....	316,985	-	316,985
	<u>\$ 577,109</u>	<u>\$ -</u>	<u>\$ 577,109</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Community Preservation Fund	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 71,289	\$ -	\$ 71,289
Tax and utility liens.....	38,166	93	38,259
Motor vehicle and other excise taxes.....	60,103	-	60,103
Community preservation surcharges.....	-	4,670	4,670
Intergovernmental (state school construction).....	3,830,500	-	3,830,500
Tax foreclosures.....	549,180	-	549,180
Total.....	<u>\$ 4,549,238</u>	<u>\$ 4,763</u>	<u>\$ 4,554,001</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, \$494,658 of such assistance was received. Approximately \$4,113,000 will be received in future fiscal years. Of this amount, approximately \$282,500 represents reimbursement of long-term interest costs, and approximately \$3,830,500 represents reimbursement of approved construction costs. Accordingly, a \$3,830,500 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

**NOTE 5 - CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 7,062,416	\$ 445,000	\$ -	\$ 7,507,416
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,335,565	24,973	-	1,360,538
Buildings and improvements.....	20,385,377	1,172,916	-	21,558,293
Machinery and equipment.....	7,725,299	199,283	-	7,924,582
Vehicles.....	869,408	33,593	-	903,001
Infrastructure.....	24,917,345	605,394	-	25,522,739
Total capital assets being depreciated.....	<u>55,232,994</u>	<u>2,036,159</u>	<u>-</u>	<u>57,269,153</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(194,769)	(46,819)	-	(241,588)
Buildings and improvements.....	(5,620,756)	(678,078)	-	(6,298,834)
Machinery and equipment.....	(5,978,629)	(320,083)	-	(6,298,712)
Vehicles.....	(454,809)	(111,760)	-	(566,569)
Infrastructure.....	<u>(15,786,690)</u>	<u>(1,068,889)</u>	<u>-</u>	<u>(16,855,579)</u>
Total accumulated depreciation.....	<u>(28,035,653)</u>	<u>(2,225,629)</u>	<u>-</u>	<u>(30,261,282)</u>
Total capital assets being depreciated, net.....	<u>27,197,341</u>	<u>(189,470)</u>	<u>-</u>	<u>27,007,871</u>
Total governmental activities capital assets, net.....	<u>\$ 34,259,757</u>	<u>\$ 255,530</u>	<u>\$ -</u>	<u>\$ 34,515,287</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,142,571	\$ -	\$ -	\$ 1,142,571
Construction in progress.....	693,749	109,783	-	803,532
Total capital assets not being depreciated.....	<u>1,836,320</u>	<u>109,783</u>	<u>-</u>	<u>1,946,103</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	556,765	-	-	556,765
Machinery and equipment.....	904,968	-	-	904,968
Vehicles.....	73,425	-	-	73,425
Infrastructure.....	17,103,391	-	-	17,103,391
Total capital assets being depreciated.....	<u>18,638,549</u>	<u>-</u>	<u>-</u>	<u>18,638,549</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(89,641)	(11,135)	-	(100,776)
Machinery and equipment.....	(415,167)	(77,420)	-	(492,587)
Vehicles.....	(41,672)	(9,365)	-	(51,037)
Infrastructure.....	(3,476,796)	(262,561)	-	(3,739,357)
Total accumulated depreciation.....	<u>(4,023,276)</u>	<u>(360,481)</u>	<u>-</u>	<u>(4,383,757)</u>
Total capital assets being depreciated, net.....	<u>14,615,273</u>	<u>(360,481)</u>	<u>-</u>	<u>14,254,792</u>
Total business-type activities capital assets, net.....	<u>\$ 16,451,593</u>	<u>\$ (250,698)</u>	<u>\$ -</u>	<u>\$ 16,200,895</u>

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

**Governmental Activities:**

General government.....	\$ 70,517
Public safety.....	217,975
Education.....	479,905
Public works.....	1,139,384
Health and human services.....	33,941
Culture and recreation.....	<u>283,907</u>

Total depreciation expense - governmental activities..... \$ 2,225,629

**Business-Type Activities:**

Water.....	<u>\$ 360,481</u>
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**NOTE 6 - INTERFUND TRANSFERS**

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

Transfers Out:	Transfers In:		
	General Fund	Underground Utilities	Total
General Fund.....	\$ -	\$ 50,000	\$ 50,000 (1)
Nonmajor Governmental Funds.....	373,707	-	373,707 (2)
	<u>\$ 373,707</u>	<u>\$ 50,000</u>	<u>\$ 423,707</u>

- (1) Represents funding of short-term debt paydown for the underground utilities construction project
- (2) Represents funding of the operating budget from the ambulance receipts reserved (\$325,075), snow removal revolving (\$32,500), cemetery receipts reserved (\$15,000) and senior center (\$1,132) funds

**NOTE 7 - SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and water enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2006 are as follows:

**Notes Payable - Governmental Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate %	Balance at 6/30/2005	Increases	Decreases	Balance at 6/30/2006
BAN	Underground Utilities....	01/21/05	01/20/06	3.65	\$ 184,770	\$ -	\$ (184,770)	\$ -
BAN	Underground Utilities....	01/20/06	01/19/07	3.99	-	26,559	-	26,559
BAN	Underground Utilities....	01/20/06	01/19/07	5.50	-	134,770	-	134,770
	Total.....				<u>\$ 184,770</u>	<u>\$ 161,329</u>	<u>\$ (184,770)</u>	<u>\$ 161,329</u>

**Subsequent Events**

On August 31, 2006 the Town issued a BAN in the amount of \$517,728 for departmental equipment. The BAN carries an interest rate of 3.89% and matures on August 31, 2007.

On January 19, 2007, the Town paid down \$13,300 of the \$26,559 outstanding BAN for underground utilities with available funds. The remaining \$13,259 was renewed as a new BAN carrying an interest rate of 4.09% and maturing on January 18, 2008.

On January 19, 2007, the Town paid down \$67,000 of the \$134,770 outstanding BAN for underground utilities with available funds. The remaining \$67,770 was renewed as a new BAN carrying an interest rate of 5.80% and maturing on January 18, 2008.

On January 19, 2007 the Town issued a BAN in the amount of \$176,592 for departmental equipment. The BAN carries an interest rate of 3.80% and matures on August 31, 2007.

#### NOTE 8 - LONG-TERM DEBT

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2006 and the debt service requirements are as follows:

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

Project	Interest Rate %	Outstanding at June 30, 2005	Additions	Reductions	Outstanding at June 30, 2006
Building Construction - School.....	4.5 - 4.9	\$ 68,000	\$ -	\$ (17,000)	\$ 51,000
Surface Drain.....	4.5 - 4.9	211,000	-	(53,000)	158,000
Building Remodeling - School.....	4.4 - 4.8	832,000	-	(208,000)	624,000
Land Acquisition - Refunding.....	3.8 - 4.0	141,000	-	(25,000)	116,000
Building Construction - Refunding....	3.8 - 4.1	2,684,000	-	(372,000)	2,312,000
Building Remodeling - Refunding....	3.8 - 4.0	87,000	-	(15,000)	72,000
Building Construction - Library.....	2.0 - 4.5	2,383,000	-	(133,000)	2,250,000
Building Addition - Highway.....	2.0 - 4.4	185,000	-	(15,000)	170,000
Engineering Services - Library.....	2.0 - 4.4	308,000	-	(20,000)	288,000
Sewer.....	2.0 - 4.5	163,000	-	(10,000)	153,000
Municipal Purpose Loan.....	4.4 - 5.3	1,050,000	-	(100,000)	950,000
Underground Utilities.....	3.0 - 4.2	767,000	-	(47,000)	720,000
Departmental Equipment.....	3.0 - 3.5	137,000	-	(31,000)	106,000
Fire Truck.....	3.0 - 4.0	340,000	-	(34,000)	306,000
MWPAT.....	2.00	61,100	107,150	-	168,250
Total governmental funds.....		\$ 9,417,100	\$ 107,150	\$ (1,080,000)	\$ 8,444,250

During fiscal year 2006, the Town issued \$107,150 in MWPAT notes for a storm water project.

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 1,061,245	\$ 339,316	\$ 1,400,561
2008.....	1,057,080	298,753	1,355,833
2009.....	1,049,222	256,697	1,305,919
2010.....	761,368	214,605	975,973
2011.....	726,518	185,350	911,868
2012.....	651,669	156,904	808,573
2013.....	565,824	130,725	696,549
2014.....	326,983	106,597	433,580
2015.....	327,144	93,359	420,503
2016.....	293,308	79,716	373,024
2017.....	283,475	67,487	350,962
2018.....	283,647	55,243	338,890
2019.....	221,822	44,484	266,306
2020.....	219,000	35,209	254,209
2021.....	219,182	25,896	245,078
2022.....	219,368	16,521	235,889
2023.....	147,557	7,107	154,664
2024.....	9,749	697	10,446
2025.....	9,946	422	10,368
2026.....	10,143	142	10,285
Total.....	\$ <u>8,444,250</u>	\$ <u>2,115,230</u>	\$ <u>10,559,480</u>

#### Subsequent Event

Subsequent to June 30, 2006, the Town issued \$47,791 of MWPAT notes for a storm water project.

**Bonds Payable – Water Enterprise Fund**

Project	Interest Rate %	Outstanding at June 30, 2005	Additions	Reductions	Outstanding at June 30, 2006
Water Mains.....	4.5 - 4.9	\$ 4,000	\$ -	\$ (1,000)	\$ 3,000
Water Mains.....	4.5 - 4.9	68,000	-	(17,000)	51,000
Water Mains.....	4.5 - 4.9	24,000	-	(6,000)	18,000
Water Mains.....	4.5 - 4.9	25,000	-	(6,000)	19,000
Water Mains.....	4.4 - 4.8	208,000	-	(52,000)	156,000
Water Mains - Refunding.....	3.8 - 4.1	561,000	-	(79,000)	482,000
Water Mains - Refunding.....	3.8 - 4.1	107,000	-	(14,000)	93,000
Water Storage Tank Construction....	2.0 - 4.5	1,785,000	-	(100,000)	1,685,000
Water Treatment Facility.....	2.0 - 4.5	31,000	-	(2,000)	29,000
Water Mains.....	2.0 - 4.5	302,000	-	(17,000)	285,000
Water Mains.....	2.0 - 4.5	104,000	-	(6,000)	98,000
Water Mains.....	2.0 - 4.2	14,000	-	(2,000)	12,000
Water Mains.....	2.0 - 4.5	265,000	-	(15,000)	250,000
MWPAT.....	3.0 - 5.0	507,628	-	(21,717)	485,911
Water Mains.....	3.0 - 4.2	740,000	-	(36,000)	704,000
Water Mains.....	3.0 - 4.0	10,000	-	(1,000)	9,000
<b>Total water enterprise fund.....</b>		<b>\$ 4,755,628</b>	<b>\$ -</b>	<b>\$ (375,717)</b>	<b>\$ 4,379,911</b>

Debt service requirements for principal and interest for water enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2007.....	\$ 377,252	\$ 174,966	\$ 552,218
2008.....	378,027	162,202	540,229
2009.....	381,829	148,026	529,855
2010.....	300,460	133,806	434,266
2011.....	276,112	122,827	398,939
2012.....	271,816	112,292	384,108
2013.....	273,415	101,920	375,335
2014.....	206,000	90,226	296,226
2015.....	211,000	81,924	292,924
2016.....	220,000	73,288	293,288
2017.....	220,000	64,188	284,188
2018.....	220,000	54,880	274,880
2019.....	217,000	45,500	262,500
2020.....	220,000	35,981	255,981
2021.....	220,000	26,391	246,391
2022.....	220,000	16,539	236,539
2023.....	167,000	6,749	173,749
<b>Total.....</b>	<b>\$ 4,379,911</b>	<b>\$ 1,451,705</b>	<b>\$ 5,831,616</b>

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2006 the Town’s subsidy totaled approximately \$20,500. Future subsidies total approximately \$339,000. The amount of MWPAT bonds outstanding at June 30, 2006, totaled \$654,161.

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2006, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Departmental equipment.....	\$ 810,535
Phase II stormwater project.....	<u>66,750</u>
Total.....	<u>\$ 877,285</u>

Changes in Long-Term Liabilities

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

	<u>Balance June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>	<u>Current Portion</u>
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 9,417,100	\$ 107,150	\$ (1,080,000)	\$ 8,444,250	\$ 1,061,245
Landfill closure.....	206,353	-	(83,698)	122,655	50,000
Compensated absences.....	<u>411,000</u>	<u>398,000</u>	<u>-</u>	<u>809,000</u>	<u>626,000</u>
Total.....	<u>\$ 10,034,453</u>	<u>\$ 505,150</u>	<u>\$ (1,163,698)</u>	<u>\$ 9,375,905</u>	<u>\$ 1,737,245</u>
<b>Business-type Activities:</b>					
Bonds and notes payable.....	<u>\$ 4,755,628</u>	<u>\$ -</u>	<u>\$ (375,717)</u>	<u>\$ 4,379,911</u>	<u>\$ 377,252</u>

The governmental activities long-term liabilities are generally liquidated by the general fund. The business-type activities long-term liabilities are generally liquidated by the water enterprise fund.

**NOTE 9 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

State and federal laws and regulations required the Town to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1990 and, accordingly, was subsequently capped and funded via long-term debt. The Town has reflected \$122,655 as the estimate of the landfill post-closure care liability at June 30, 2006. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 10 - RISK FINANCING**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in premium-based health care and workers' compensation plans for its employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

**NOTE 11 - PENSION PLAN**

*Plan Description* - The Town contributes to the Norfolk County Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Norfolk County Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System (MTRS), to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$642,816 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Norfolk County Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 480 Neponset Street, Canton, Massachusetts, 02021.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$787,626, \$624,813, and \$523,655, respectively, which equaled its required contribution for each fiscal year.

**NOTE 12 - COMMITMENTS**

The Town has entered into, or is planning to enter into, contracts totaling approximately \$800,000 for departmental equipment.

**NOTE 13 - CONTINGENCIES**

Various legal actions and claims are pending against the Town. 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 of the Town at June 30, 2006.

The Town participates in a number of federal award programs. The programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**NOTE 14 - IMPLEMENTATION OF GASB PRONOUNCEMENTS**

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

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.
- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*.
- Statement #47, *Accounting for Termination Benefits*.

The implementation of these pronouncements had no impact on the basic financial statements.

**NOTE 15 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2008. This Statement will not impact the Town's basic financial statements.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on the basic financial statements.
- 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 during fiscal year 2008. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented during fiscal year 2009. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #50, *Pension Disclosures*, which is required to be implemented during fiscal year 2008. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented during fiscal year 2010. The Town is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented by their respective due dates.