

TOWN OF EASTON, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Easton, 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 Easton, Massachusetts, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Easton's management. Our responsibility is to express an opinion 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 Easton, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2006 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Melanson, Heath + Company P.C.

Andover, Massachusetts
December 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Easton, we offer readers this narrative overview and analysis of the financial activities of the Town of Easton for the fiscal year ended June 30, 2006.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are composed of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, the enterprise fund is used to account for water operations.

The Proprietary fund provides the same type of information as the business-type activities reported in the government-wide financial statements.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS (in thousands)

- As of the close of the current fiscal year, total assets for governmental activities exceeded liabilities by \$ 48,875 (i.e., net assets), a change of \$ 33,687 in comparison with the prior year.
- As of the close of the current fiscal year, total assets for business-type activities exceeded liabilities by \$ 32,306 (i.e., net assets), a change of \$ 976 in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ (7,222), a change of \$ (2,358) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,589, a change of \$ (843) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 25,382, a change of \$ (2,179) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 25,706	\$ 23,016	\$ 2,850	\$ 3,292	\$ 28,556	\$ 26,308
Capital assets	76,219	45,096	34,720	32,785	110,939	77,881
Total assets	101,925	68,112	37,570	36,077	139,495	104,189
Long-term liabilities	24,995	25,466	2,382	2,377	27,377	27,843
Notes payable	22,181	20,920	2,810	1,660	24,991	22,580
Other liabilities	5,874	6,537	71	710	5,945	7,247
Total liabilities	53,050	52,923	5,263	4,747	58,313	57,670
Net assets:						
Invested in capital assets, net of related debt	31,508	10,106	29,874	29,174	61,382	39,280
Restricted	8,448	7,382	-	-	8,448	7,382
Unrestricted	8,919	(2,299)	2,432	2,156	11,351	(143)
Total net assets	\$ 48,875	\$ 15,189	\$ 32,306	\$ 31,330	\$ 81,181	\$ 46,519

CHANGES IN NET ASSETS

	Governmental		Business-Type		Totals	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues						
Charges for services	\$ 2,927	\$ 2,674	\$ 3,020	\$ 2,664	\$ 5,947	\$ 5,338
Operating grants and contributions	14,556	13,859	-	-	14,556	13,859
Capital grants and contributions	1,246	1,246	901	552	2,147	1,798
General revenues						
Property Taxes	31,661	30,277	-	-	31,661	30,277
Excises	3,262	3,015	-	-	3,262	3,015
Penalties, interest and other taxes	146	185	-	-	146	185
Grants and contributions not restricted to specific programs	32,652	2,712	-	-	32,652	2,712
Investment income	701	540	71	31	772	571
Other	1,491	1,721	-	-	1,491	1,721
Total revenues	<u>88,642</u>	<u>56,229</u>	<u>3,992</u>	<u>3,247</u>	<u>92,634</u>	<u>59,476</u>
Expenses:						
General government	10,177	9,635	-	-	10,177	9,635
Public safety	6,527	6,248	-	-	6,527	6,248
Education	32,148	31,057	-	-	32,148	31,057
Public works	2,338	2,637	-	-	2,338	2,637
Health and human services	565	630	-	-	565	630
Culture and recreation	805	770	-	-	805	770
Interest and costs	2,291	1,768	-	-	2,291	1,768
Intergovernmental	653	611	-	-	653	611
Water services	-	-	2,468	1,759	2,468	1,759
Total expenses	<u>55,504</u>	<u>53,356</u>	<u>2,468</u>	<u>1,759</u>	<u>57,972</u>	<u>55,115</u>
Change in net assets before transfers and loss	33,138	2,873	1,524	1,488	34,662	4,361
Loss on disposal of assets	-	-	-	(164)	-	(164)
Transfer in (out)	548	548	(548)	(548)	-	-
Change in net assets	33,686	3,421	976	776	34,662	4,197
Net assets - beginning of year	<u>15,189</u>	<u>11,768</u>	<u>31,330</u>	<u>30,554</u>	<u>46,519</u>	<u>42,322</u>
Net assets - end of year	<u>\$ 48,875</u>	<u>\$ 15,189</u>	<u>\$ 32,306</u>	<u>\$ 31,330</u>	<u>\$ 81,181</u>	<u>\$ 46,519</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 81,182, a change of \$ 34,663 from the prior year.

The largest portion of net assets, \$ 61,382, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 8,448, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 11,351, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ 33,687. Key elements of this change are as follows:

General fund deficiency of revenues over expenditures	\$ (776)
General fund transfer in from Enterprise funds (indirect costs)	548
MSBA grant	30,271
Fixed asset additions from current year revenue	2,596
Debt service principal payments in excess of depreciation expense	158
Decrease in compensated absence liability	590
Other	<u>300</u>
Total	<u>\$ 33,687</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 976. The key element of this change increase was contributed assets from developers.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of (7,222), a change of \$ (2,358) in comparison with the prior year. Most of this change was attributable to the expenditure of funds for school construction in the amount of \$ (30,060) and the MSBA grant reimbursement for the construction of \$ 27,372.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,589, while total fund balance was \$ 3,388. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 3 percent of total general fund expenditures, while total fund balance represents 6 percent of that same amount.

The fund balance of the general fund changed by \$ 159 during the current fiscal year. Key factors in this change are as follows:

Use of free cash and other surplus as a funding source	\$ (1,242)
Raising of prior year deficit	336
Revenues in excess of budget	759
Expenditures less than budget	1,095
Interest accrued on bond anticipation notes	(588)
Other	(201)
Total	\$ <u>159</u>

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 2,432, a change of \$ (225) over the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 1,194. Major reasons for these amendments include:

- \$ 550 transfer to the stabilization fund
- \$ 297 increase in school budget
- \$ 203 increase in capital outlay

This increase was principally funded from the use of free cash and an increase in the tax levy.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 110,936 (net of accumulated depreciation), a change of \$ 33,056 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Construction in progress for the high school/middle school addition and renovation project changed by approximately \$ 30,060.
- Land purchases totaled approximately \$ 2,118.
- Water infrastructure changed by a net \$ 1,082.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 25,382, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Easton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Town Accountant
Town of Easton, Massachusetts
136 Elm Street
North Easton, Massachusetts 02356

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 20,641,711	\$ 1,751,527	\$ 22,393,238
Receivables, net of allowance for uncollectibles:			
Property taxes	857,301	-	857,301
Excise	321,242	-	321,242
Charges for service	-	959,106	959,106
Betterments	53,554	63,493	117,047
Departmental and other	295,036	-	295,036
Intergovernmental	3,437,204	-	3,437,204
Inventories	-	75,989	75,989
Other assets	926	-	926
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	102,661	-	102,661
Capital assets, not being depreciated	55,139,027	2,885,012	58,024,039
Capital assets, being depreciated net of accumulated depreciation	<u>21,076,664</u>	<u>31,834,613</u>	<u>52,911,277</u>
TOTAL ASSETS	101,925,326	37,569,740	139,495,066
LIABILITIES			
Current:			
Warrants payable	2,328,649	33,964	2,362,613
Accrued liabilities	3,363,854	36,906	3,400,760
Notes payable	22,181,000	2,810,000	24,991,000
Other current liabilities	181,458	-	181,458
Current portion of long-term liabilities:			
Bonds payable	1,805,189	490,827	2,296,016
Accrued employee benefits	31,166	3,506	34,672
Estimated landfill closure and postclosure liability	50,000	-	50,000
Noncurrent:			
Bonds payable	21,266,516	1,819,529	23,086,045
Accrued employee benefits	592,155	68,611	660,766
Estimated landfill closure and postclosure liability	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>
TOTAL LIABILITIES	53,049,987	5,263,343	58,313,330
NET ASSETS			
Invested in capital assets, net of related debt	31,507,963	29,874,237	61,382,200
Restricted for:			
Grants and other statutory restrictions	8,383,868	-	8,383,868
Permanent funds:			
Nonexpendable	45,881	-	45,881
Expendable	18,550	-	18,550
Unrestricted	<u>8,919,077</u>	<u>2,432,160</u>	<u>11,351,237</u>
TOTAL NET ASSETS	\$ <u>48,875,339</u>	\$ <u>32,306,397</u>	\$ <u>81,181,736</u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 10,176,649	\$ 456,590	\$ 68,717	\$ -	\$ (9,651,342)	\$ -	\$ (9,651,342)
Public safety	6,526,665	1,505,286	742,780	-	(4,278,599)	-	(4,278,599)
Education	32,148,723	861,817	13,192,001	1,245,934	(16,848,971)	-	(16,848,971)
Public works	2,338,481	-	422,973	-	(1,915,508)	-	(1,915,508)
Health and human services	565,126	99,505	129,423	-	(336,198)	-	(336,198)
Culture and recreation	805,217	3,731	-	-	(801,486)	-	(801,486)
Interest	2,290,667	-	-	-	(2,290,667)	-	(2,290,667)
Intergovernmental	652,631	-	-	-	(652,631)	-	(652,631)
Total Governmental Activities	55,504,159	2,926,929	14,555,894	1,245,934	(36,775,402)	-	(36,775,402)
Business-Type Activity:							
Water services	2,468,087	3,020,005	-	900,766	-	1,452,684	1,452,684
Total	\$ 57,972,246	\$ 5,946,934	\$ 14,555,894	\$ 2,146,700	(36,775,402)	1,452,684	(35,322,718)
General Revenues and Transfers:							
Property taxes					31,661,474	-	31,661,474
Excises					3,261,634	-	3,261,634
Penalties, interest and other taxes					146,778	-	146,778
Grants and contributions not restricted to specific programs					32,651,840	-	32,651,840
Investment income					700,848	71,517	772,365
Miscellaneous					1,491,700	-	1,491,700
Transfers, net					547,754	(547,754)	-
Total general revenues and transfers					70,462,028	(476,237)	69,985,791
Change in Net Assets					33,686,626	976,447	34,663,073
Net Assets:							
Beginning of year					15,188,713	31,329,950	46,518,663
End of year					\$ 48,875,339	\$ 32,306,397	\$ 81,181,736

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

	<u>General</u>	<u>Community Preservation Fund</u>	<u>School Building Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 4,866,889	\$ 5,011,608	\$ 5,709,472	\$ 5,053,741	\$ 20,641,710
Receivables:					
Property taxes	1,022,785	-	-	-	1,022,785
Excises	400,907	-	-	-	400,907
Betterments	-	-	-	53,554	53,554
Departmental	314,639	21,928	-	65,190	401,757
Intergovernmental	-	-	2,898,546	538,658	3,437,204
Other assets	-	-	-	926	926
TOTAL ASSETS	<u>\$ 6,605,220</u>	<u>\$ 5,033,536</u>	<u>\$ 8,608,018</u>	<u>\$ 5,712,069</u>	<u>\$ 25,958,843</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 183,278	\$ 117	\$ 2,065,769	\$ 79,484	\$ 2,328,648
Accrued liabilities	1,135,600	-	2,048,478	10,780	3,194,858
Deferred revenues	1,738,331	21,928	2,898,546	658,328	5,317,133
Notes payable	-	1,475,000	20,000,000	706,000	22,181,000
Other liabilities	159,530	-	-	-	159,530
TOTAL LIABILITIES	3,216,739	1,497,045	27,012,793	1,454,592	33,181,169
Fund Balances:					
Reserved for:					
Encumbrances	142,793	-	-	-	142,793
Continuing appropriations	292,226	-	-	-	292,226
Expenditures	339,000	-	-	-	339,000
Debt service	1,025,189	-	-	-	1,025,189
Permanent perpetual funds	-	-	-	45,881	45,881
Unreserved:					
Designated	-	1,367,671	-	-	1,367,671
Undesignated, reported in:					
General fund	1,589,273	-	-	-	1,589,273
Special revenue funds	-	2,168,820	-	4,235,472	6,404,292
Capital project funds	-	-	(18,404,775)	(42,426)	(18,447,201)
Permanent expendable funds	-	-	-	18,550	18,550
TOTAL FUND BALANCES	<u>3,388,481</u>	<u>3,536,491</u>	<u>(18,404,775)</u>	<u>4,257,477</u>	<u>(7,222,326)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,605,220</u>	<u>\$ 5,033,536</u>	<u>\$ 8,608,018</u>	<u>\$ 5,712,069</u>	<u>\$ 25,958,843</u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total governmental fund balances	\$ (7,222,326)
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	76,215,691
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	4,995,996
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(168,996)
• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(24,995,026)</u>
Net assets of governmental activities	<u><u>\$ 48,825,339</u></u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Community Preservation Fund</u>	<u>School Building Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 31,030,623	\$ 684,567	\$ -	\$ -	\$ 31,715,190
Excises	3,095,979	-	-	-	3,095,979
Departmental	445,154	-	-	1,574,350	2,019,504
Licenses and permits	1,003,831	-	-	-	1,003,831
Fines and forfeitures	224,059	4,099	-	3,113	231,271
Intergovernmental	15,475,939	625,268	27,372,392	2,565,287	46,038,886
Investment income	502,213	102,951	-	98,605	703,769
Other	429,595	9,760	-	868,273	1,307,628
Total Revenues	<u>52,207,393</u>	<u>1,426,645</u>	<u>27,372,392</u>	<u>5,109,628</u>	<u>86,116,058</u>
Expenditures:					
Current:					
General government	9,995,162	1,418,727	-	135,938	11,549,827
Public safety	5,786,281	-	-	877,074	6,663,355
Education	29,021,929	-	30,060,257	2,601,647	61,683,833
Public works	2,530,076	-	-	502,074	3,032,150
Human services	511,878	-	-	53,120	564,998
Culture and recreation	401,092	2,307	-	387,356	790,755
Debt service	4,084,572	-	-	-	4,084,572
Intergovernmental	652,631	-	-	-	652,631
Total Expenditures	<u>52,983,621</u>	<u>1,421,034</u>	<u>30,060,257</u>	<u>4,557,209</u>	<u>89,022,121</u>
Excess (deficiency) of revenues over expenditures	(776,228)	5,611	(2,687,865)	552,419	(2,906,063)
Other Financing Sources (Uses):					
Transfers in	1,698,859	-	-	-	1,698,859
Transfers out	(764,000)	-	-	(387,105)	(1,151,105)
Total Other Financing Sources (Uses)	<u>934,859</u>	<u>-</u>	<u>-</u>	<u>(387,105)</u>	<u>547,754</u>
Change in fund balance	158,631	5,611	(2,687,865)	165,314	(2,358,309)
Fund Balance, at Beginning of Year	<u>3,229,850</u>	<u>3,530,880</u>	<u>(15,716,910)</u>	<u>4,092,163</u>	<u>(4,864,017)</u>
Fund Balance, at End of Year	<u>\$ 3,388,481</u>	<u>\$ 3,536,491</u>	<u>\$ (18,404,775)</u>	<u>\$ 4,257,477</u>	<u>\$ (7,222,326)</u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (2,358,309)														
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td style="width: 60%;">Capital outlay purchases, net</td> <td style="text-align: right;">32,655,822</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(1,529,702)</td> </tr> <tr> <td>Loss on disposal of asset</td> <td style="text-align: right;">(6,118)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">2,541,137</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td style="width: 60%;">Repayments of debt</td> <td style="text-align: right;">1,686,600</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">107,304</td> </tr> </table> • Some expenses reported in the Statement of Activities such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>589,892</u></td> </tr> </table> 		Capital outlay purchases, net	32,655,822	Depreciation	(1,529,702)	Loss on disposal of asset	(6,118)		2,541,137	Repayments of debt	1,686,600		107,304		<u>589,892</u>
Capital outlay purchases, net	32,655,822														
Depreciation	(1,529,702)														
Loss on disposal of asset	(6,118)														
	2,541,137														
Repayments of debt	1,686,600														
	107,304														
	<u>589,892</u>														
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>33,686,626</u></u>														

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 31,036,839	\$ 31,080,133	\$ 31,080,133	\$ -
Motor vehicle excise	3,025,000	3,025,000	3,095,979	70,979
Licenses, permits and fees	1,310,000	1,310,000	1,448,985	138,985
Fines and forfeitures	215,000	215,000	224,059	9,059
Intergovernmental	11,550,036	11,550,036	11,510,832	(39,204)
Investment income	300,000	300,000	502,213	202,213
Other revenue	75,802	75,802	429,595	353,793
Transfers in	1,602,706	1,675,998	1,698,859	22,861
Use of free cash and fund balance	165,000	1,242,420	1,242,420	-
Total Revenues and Other Sources	49,280,383	50,474,389	51,233,075	758,686
Expenditures and Other Uses:				
General government	10,258,086	10,376,967	10,037,268	339,699
Public safety	5,651,104	5,651,927	5,626,912	25,015
Education	24,772,923	25,069,750	25,069,750	-
Public works	2,085,906	2,098,406	2,237,514	(139,108)
Health and human services	506,809	518,784	513,833	4,951
Culture and recreation	401,092	401,092	401,092	-
Capital outlay	161,000	364,000	362,326	1,674
Debt service	4,429,748	4,429,748	3,592,412	837,336
Intergovernmental	677,799	677,799	652,631	25,168
Transfers out	-	550,000	550,000	-
Other uses	335,916	335,916	335,916	-
Total Expenditures and Other Uses	49,280,383	50,474,389	49,379,654	1,094,735
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,853,421	\$ 1,853,421

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2006

Business-Type Activities
Enterprise Fund
Water
Fund

ASSETS

Current:	
Cash and short-term investments	\$ 1,751,527
Receivables:	
Charges for service, net of allowance for uncollectibles	959,106
Betterments	63,493
Inventory	<u>75,989</u>
Total current assets	2,850,115
Noncurrent:	
Capital assets, not being depreciated	2,885,012
Capital assets being depreciated, net of accumulated depreciation	<u>31,834,613</u>
Total noncurrent assets	<u>34,719,625</u>
TOTAL ASSETS	37,569,740

LIABILITIES

Current:	
Warrants payable	33,964
Accrued liabilities	36,906
Notes payable	2,810,000
Current portion of long-term liabilities:	
Bonds payable	490,827
Accrued employee benefits	<u>3,506</u>
Total current liabilities	3,375,203
Noncurrent:	
Bonds payable	1,819,529
Accrued employee benefits	<u>68,611</u>
Total noncurrent liabilities	<u>1,888,140</u>
TOTAL LIABILITIES	5,263,343

NET ASSETS

Invested in capital assets, net of related debt	29,874,237
Unrestricted	<u>2,432,160</u>
TOTAL NET ASSETS	\$ <u><u>32,306,397</u></u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities Enterprise Fund <u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ 2,987,944
Other	<u>32,061</u>
Total Operating Revenues	3,020,005
Operating Expenses:	
Personnel services	742,047
Purchase of services	856,314
Depreciation	<u>704,950</u>
Total Operating Expenses	<u>2,303,311</u>
Operating Income	716,694
Nonoperating Revenues (Expenses):	
Contributions	900,766
Investment income	71,517
Interest expense	<u>(164,776)</u>
Total Nonoperating Revenues (Expenses), Net	<u>807,507</u>
Income Before Transfers	1,524,201
Transfers:	
Transfers in	100,000
Transfers out	<u>(647,754)</u>
Change in Net Assets	976,447
Net Assets at Beginning of Year	<u>31,329,950</u>
Net Assets at End of Year	<u>\$ 32,306,397</u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities <u>Enterprise Funds</u> Water Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers and users	\$ 3,109,874
Payments to vendors and employees	<u>(1,730,763)</u>
Net Cash Provided By (Used For) Operating Activities	1,379,111
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers in	100,000
Transfers out	<u>(647,754)</u>
Net Cash (Used For) Noncapital Financing Activities	(547,754)
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	(1,738,979)
Proceeds from issuance of bonds and notes	2,850,000
Principal payments on bonds and notes	(2,193,083)
Interest expense	<u>(164,776)</u>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(1,246,838)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>71,517</u>
Net Cash Provided By Investing Activities	<u>71,517</u>
Net Change in Cash and Short-Term Investments	(343,964)
Cash and Short-Term Investments, Beginning of Year	<u>2,095,491</u>
Cash and Short-Term Investments, End of Year	<u><u>\$ 1,751,527</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income	\$ 716,694
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	704,950
Changes in assets and liabilities:	
Other assets	97,682
Warrants payable	(99,409)
Accrued liabilities	(42,806)
Other liabilities	<u>2,000</u>
Net Cash Provided By Operating Activities	<u><u>\$ 1,379,111</u></u>

See notes to financial statements.

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

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ <u>178,216</u>	\$ <u>1,816,429</u>
Total Assets	178,216	1,816,429
<u>LIABILITIES AND NET ASSETS</u>		
Other liabilities	<u>-</u>	<u>1,816,429</u>
Total Liabilities	<u>-</u>	<u>1,816,429</u>
<u>NET ASSETS</u>		
Total net assets held in trust	\$ <u><u>178,216</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust Funds</u>
Additions:	
Investment income	\$ <u>14,445</u>
Total additions	14,445
Deductions:	
Other	<u>8,300</u>
Total deductions	<u>8,300</u>
Net increase	6,145
Net assets:	
Beginning of year	<u>172,071</u>
End of year	\$ <u><u>178,216</u></u>

See notes to financial statements.

TOWN OF EASTON, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Easton (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2006, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from

the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The *Community Preservation Fund* - This fund accounts for activity associated with the Commonwealth's Community Preservation Act.
- The *School Building Fund* - This fund accounts for activity associated with the Oliver Ames High School and Easton Junior High School renovation/construction projects.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Enterprise Fund

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

The agency funds account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of approximately \$ 10,000.

G. Inventories

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

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	50
Vehicles	3 - 5
Office equipment	3 - 10
Computer equipment	3 - 5
Furnishings	5

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

At the annual town meeting, the Town Administrator presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to their total budget as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items, encumbrances and special appropriations, which will be honored during the subsequent year.

B. Budgetary Basis

The budgetary data for the general is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with

budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 52,207,393	\$ 52,983,621
Other financing sources/uses (GAAP basis)	<u>1,698,859</u>	<u>764,000</u>
Subtotal (GAAP Basis)	53,906,252	53,747,621
Adjust tax revenue to accrual basis	49,510	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(281,673)
Add end of year appropriation carryforwards to expenditures	-	142,793
To reverse the effect of non-budgeted State contributions for teachers retirement	(3,965,107)	(3,965,107)
Recognize use of free cash, fund balance and other uses	1,242,420	335,916
Reverse interest accrual	-	(588,415)
Other timing issues	<u>-</u>	<u>(11,481)</u>
Budgetary basis	<u>\$ 51,233,075</u>	<u>\$ 49,379,654</u>

C. Excess of Expenditures Over Appropriations

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

Public Works - snow and ice	\$ (139,108)
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D. Deficit Fund Equity

The following funds had deficits as of June 30, 2006:

School Building Major Fund	\$ (18,404,775)
----------------------------	-----------------

The Town reflects several special revenue and capital project fund deficits, primarily caused by grant expenses occurring in advance of grant reimbursements and the use of bond anticipation notes to finance construction activities.

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

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2006, \$ 1,246,090 of the Town's bank balance of \$ 25,797,059 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

4. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st 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 a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2006 consist of the following (in thousands):

Real Estate		\$ 432
Personal Property		
2006	7	
2005	9	
Prior Years	<u>5</u>	
		21
Tax Liens/Tax Title		<u>570</u>
Total		\$ <u>1,023</u>

5. Allowance for Doubtful Accounts

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

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 63	\$ -
Excises	79	-
Utilities	-	76
Other	106	-

6. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006, predominantly grants and Chapter 90 highway funds. The receivable in the School Building Fund represents amounts that will be received from the Massachusetts School Building Authority.

7. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 34,001	\$ 28	\$ -	\$ 34,029
Machinery, equipment, and furnishings	4,667	821	(31)	5,457
Infrastructure	<u>994</u>	<u>580</u>	<u>-</u>	<u>1,574</u>
Total capital assets, being depreciated	39,662	1,429	(31)	41,060
Less accumulated depreciation for:				
Buildings and improvements	(15,196)	(1,099)	-	(16,295)
Machinery, equipment, and furnishings	(3,266)	(396)	24	(3,638)
Infrastructure	<u>(16)</u>	<u>(34)</u>	<u>-</u>	<u>(50)</u>
Total accumulated depreciation	<u>(18,478)</u>	<u>(1,529)</u>	<u>24</u>	<u>(19,983)</u>
Total capital assets, being depreciated, net	21,184	(100)	(7)	21,077
Capital assets, not being depreciated:				
Land	6,295	1,418	-	7,713
Construction in progress	<u>17,617</u>	<u>29,809</u>	<u>-</u>	<u>47,426</u>
Total capital assets, not being depreciated	<u>23,912</u>	<u>31,227</u>	<u>-</u>	<u>55,139</u>
Governmental activities capital assets, net	\$ <u>45,096</u>	\$ <u>31,127</u>	\$ <u>(7)</u>	\$ <u>76,216</u>

Note: The Town has not yet fully capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 390	\$ -	\$ -	\$ 390
Machinery, equipment, and furnishings	766	866	(140)	1,492
Infrastructure	<u>37,560</u>	<u>2,153</u>	<u>-</u>	<u>39,713</u>
Total capital assets, being depreciated	38,716	3,019	(140)	41,595
Less accumulated depreciation for:				
Buildings and improvements	(200)	(11)	-	(211)
Machinery, equipment, and furnishings	(460)	(90)	133	(417)
Infrastructure	<u>(8,528)</u>	<u>(604)</u>	<u>-</u>	<u>(9,132)</u>
Total accumulated depreciation	<u>(9,188)</u>	<u>(705)</u>	<u>133</u>	<u>(9,760)</u>
Total capital assets, being depreciated, net	29,528	2,314	(7)	31,835
Capital assets, not being depreciated:				
Land	2,185	700	-	2,885
Construction in progress	<u>1,071</u>	<u>-</u>	<u>(1,071)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,256</u>	<u>700</u>	<u>(1,071)</u>	<u>2,885</u>
Business-type activities capital assets, net	\$ <u>32,784</u>	\$ <u>3,014</u>	\$ <u>(1,078)</u>	\$ <u>34,720</u>

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

Governmental Activities:	
General government	\$ 61
Public safety	409
Education	898
Public works	141
Health and human services	15
Culture and recreation	<u>5</u>
Total depreciation expense - governmental activities	\$ <u>1,529</u>
Business-Type Activities:	
Water	\$ <u>705</u>
Total depreciation expense - business-type activities	\$ <u>705</u>

8. Warrants Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law.

9. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2006 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

10. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2006:

	Interest <u>Rate</u>	Date of <u>Issue</u>	Date of <u>Maturity</u>	Balance at <u>June 30, 2006</u>
OAHS/EJHS project	4.25%	10/21/05	10/20/06	\$ 20,000,000
Ambulance	4.25%	06/09/06	10/20/06	78,000
Fire pumper truck	4.25%	06/09/06	10/20/06	250,000
Police cruisers	4.25%	06/09/06	10/20/06	38,000
Road repairs	4.25%	06/09/06	10/20/06	340,000
Dean St land	4.50%	12/13/05	10/20/06	1,475,000

(continued)

(continued)

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
Washington St tank painting	4.25%	02/03/06	10/20/06	550,000
Town well	4.25%	06/09/06	10/20/06	900,000
Water UV disinfection equip	4.25%	06/09/06	10/20/06	120,000
Water meters	4.25%	06/09/06	10/20/06	540,000
Land Bay Road	4.25%	11/14/05	10/20/06	<u>700,000</u>
Total				<u>\$ 24,991,000</u>

The following summarizes activity in notes payable during fiscal year 2006:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
OAHS/EJHS project	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000
Purchase ambulance	104,000	78,000	104,000	78,000
Purchase fire pumper truck	300,000	250,000	300,000	250,000
Purchase police cruisers	76,000	38,000	76,000	38,000
Road repairs	440,000	340,000	440,000	340,000
CPA dean st land	-	1,475,000	-	1,475,000
Washington st tank painting	-	550,000	-	550,000
Town well	900,000	900,000	900,000	900,000
Water UV disinfection equip	160,000	160,000	200,000	120,000
Water meters	600,000	540,000	600,000	540,000
Land on bay road	-	700,000	-	700,000
Total	<u>\$ 22,580,000</u>	<u>\$ 25,031,000</u>	<u>\$ 22,620,000</u>	<u>\$ 24,991,000</u>

11. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Four school roofs	2007	4.30 - 6.00	\$ 175,000
Concom land - Elm Street	2009	3.85 - 4.75	47,100
Concom land - Poquanticut	2009	3.85 - 4.75	44,100
Land acquisition	2012	4.40 - 6.00	277,200
Land conservation	2012	4.40 - 6.00	311,244
New school	2017	4.15 - 6.75	15,215,000
Landfill closure	2017	3.25 - 4.50	895,000
MWPAT sewer loan	2019	-	107,028
Library addition	2019	4.60 - 6.00	500,000
Landfill closure	2019	4.60 - 6.00	1,325,000
Foundry street	2019	4.60 - 6.00	210,000
Concom land - Lewis Farms	2019	4.60 - 6.00	70,000
Landfill closure	2023	3.00 - 4.20	2,040,000
School planning	2023	3.00 - 4.20	1,615,000
MWPAT wastewater study	2012	3.00 - 5.00	<u>240,033</u>
Total Governmental Activities:			\$ <u>23,071,705</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Well and pumping station	2007	4.30 - 6.00	\$ 60,000
Water mains	2007	4.30 - 6.00	40,000
Water mains	2007	4.40 - 6.00	41,320
Land - Freeman	2009	3.85 - 4.75	148,800
Water mains	2010	3.85 - 4.75	210,000
HVAC remodeling	2010	4.60 - 6.00	100,000
Water - Town well	2010	4.60 - 6.00	100,000
Water mains	2013	3.00 - 3.40	770,000
Water mains	2013	3.00 - 3.40	210,000
Water UV equipment	2017	3.75 - 4.50	275,000
Land - Freitas	2017	3.75 - 4.50	225,000
Land conservation	2012	4.40 - 6.00	<u>130,236</u>
Total Business-Type Activities:			\$ <u>2,310,356</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,805,189	\$ 1,025,297	\$ 2,830,486
2008	1,810,082	949,037	2,759,119
2009	1,825,440	870,294	2,695,734
2010	1,877,052	788,266	2,665,318
2011	1,902,670	704,344	2,607,014
2012 - 2016	9,035,988	2,226,419	11,262,407
2017 - 2021	4,385,284	411,817	4,797,101
2022 - 2023	<u>430,000</u>	<u>26,982</u>	<u>456,982</u>
Total	\$ <u>23,071,705</u>	\$ <u>7,002,456</u>	\$ <u>30,074,161</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 490,827	\$ 88,978	\$ 579,805
2008	447,551	68,297	515,848
2009	397,551	51,023	448,574
2010	276,476	35,032	311,508
2011	276,476	55,622	332,098
2012 - 2016	401,475	32,422	433,897
2017	<u>20,000</u>	<u>900</u>	<u>20,900</u>
Total	\$ <u>2,310,356</u>	\$ <u>332,274</u>	\$ <u>2,642,630</u>

C. Changes in General Long-Term Liabilities

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

	Total Balance <u>7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Governmental Activities</u>						
General obligation debt	\$ 24,758	\$ -	\$ (1,686)	\$ 23,072	\$ (1,805)	\$ 21,267
Accrued employee benefits	1,213	-	(590)	623	(31)	592
Landfill closure	<u>1,350</u>	<u>-</u>	<u>(50)</u>	<u>1,300</u>	<u>(50)</u>	<u>1,250</u>
Totals	\$ <u>27,321</u>	\$ <u>-</u>	\$ <u>(2,326)</u>	\$ <u>24,995</u>	\$ <u>(1,886)</u>	\$ <u>23,109</u>

	Total Balance <u>7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 2,803	\$ -	\$ (493)	\$ 2,310	\$ (491)	\$ 1,819
Accrued employee benefits	<u>70</u>	<u>2</u>	<u>-</u>	<u>72</u>	<u>(4)</u>	<u>68</u>
Totals	\$ <u>2,873</u>	\$ <u>2</u>	\$ <u>(493)</u>	\$ <u>2,382</u>	\$ <u>(495)</u>	\$ <u>1,887</u>

12. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In 2002, the Town authorized borrowing \$ 2,400,000 to fund the expected costs of re-capping and monitoring of the landfill.

The \$ 1,300,000 reported as landfill closure and postclosure care liability at June 30, 2006 represents what it would cost to perform all closure and post-closure care remaining on the closed landfill site in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. (See Note 16).

13. Restricted Net Assets

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

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

Net assets restricted for other purposes represent the community preservation act fund, federal and state grants, and restricted gift net assets.

14. Reserves and Designations of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use. Fund “designations,” which are not legally required segregations, have also been established to indicate tentative plans for future financial utilization.

The following types of reserves and designations are reported at June 30, 2006:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Continuing Appropriations - Represents the amount of fund balance reserved for capital articles to be expended in subsequent years.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Debt Service - Represents the amount of fund balance appropriated to be used for debt service expenditures in the subsequent year budget.

Reserved for Permanent Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Unreserved/Designated - Represents the amount of fund balance designated for use under the Community Preservation Act.

15. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the "snow and ice" appropriation. All such overexpenditures, however, must be funded in the subsequent year's tax rate.

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

GAAP basis balance	\$ 1,589,273
Snow and ice deficit	<u>139,108</u>
Statutory (UMAS) Balance	\$ <u>1,728,381</u>

16. Commitments and Contingencies

Landfill - The Town of Easton has been in violation of an administrative consent order and subsequent agreements with the Massachusetts Department of Environmental Protection (DEP) that required the Easton Landfill to be capped by December 1999. The Town completed capping the landfill during fiscal year 2004, and is currently awaiting certification from the DEP.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to Town Counsel, the probable outcome of these cases at the present time is indeterminable, although the Town expects such amounts, if any, to be immaterial.

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

17. Post-Employment Health Care and Life Insurance Benefits

The Town's employee contracts provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. As of June 30, 2006, the number of retirees, including eligible spouses, receiving health care benefits and the total costs were unavailable. The Town recognizes the cost of providing these benefits as paid.

18. Pension Plan

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The Town contributes to the Bristol County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Bristol County Retirement System, 645 County Street, County Crossing, Taunton, Massachusetts 02780.

B. Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned

among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$ 1,632,510, \$ 1,722,719, and \$ 1,390,555, respectively, which were equal to its annual required contributions for each of these years.

C. Teachers

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

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

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

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

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

The Town's current year covered payroll for teachers and administrators was unavailable.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 3,965,107 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

19. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.